The paradox of isomorphic changes and strategic differentiation in Turkish banking

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PREFACE

About eight years have passed since the time when the idea was first conceived to conduct a study addressing the paradoxes of continuity - change and homogeneity – heterogeneity, issues which one frequently came across in various organisation studies literature then. This was a time when I had just chosen to enter the academic world after a couple of years in non-academic work. It was also a time of fresh engagement on my part with a diverse set of organisation theories at once, as well as a first encounter with organisation science literature reflecting on its own evolution and fragmentation. Fascinated and puzzled at the same time, by the variety of perspectives and approaches that one could find in literature, I wished to work on a question which should be relevant to several perspectives. I was then not quite so aware of how difficult a job this could become. I had yet to learn the benefits of clear choices and borders.

Because most of my prior work experience had been in the Turkish banking sector, the choice for this sector to be the empirical setting of such a study was above all a pragmatic one. At least, I was sufficiently familiar with the nature of the business. Furthermore, as a major aspect of the topic was continuity and change, it was also obvious that the study had to have a historic dimension. What I did not know at that time was that, in an economy as dynamic and volatile as Turkey's, major real-time events could unfold any moment and interfere with one's efforts for recreating the past. I had yet to learn that one could not pretend to do a historian's work without a minimum detachment from the present to prevent the frustration of shooting at a continuously moving target.

This was also a time when I had no idea that I would be moving to the Netherlands soon after these decisions were made, and that it could perhaps be better to work on a more relevant topic for this country, which was going to be my new home for a much longer time than I had imagined at the time. I had yet to find out the effects of physical on mental distance. And certainly, I had to realise that my overwhelmingly Anglo-Saxon academic background might have had such a large effect on me that even my German high-school education could not guarantee an easy adjustment to European academic norms.

Neither did I know at that time that such a study involving no Dutch business or multinational could still be welcome and receive so much support here. I had yet to experience the comforts of academic life in the Netherlands and develop so much attachment to my new home and workplace.

Completing this study has taken a much longer time than I ever could have imagined. Besides various setbacks in terms of unexpected health problems, my slowness in learning and appreciating all these new aspects of work and life may have deterred a fast progress. Luckily, I had two promoters, Arndt Sorge and Behlül Üsdiken, who have been extremely patient and accommodating during this long process. They have never lost faith in me, even when I did so myself. Besides their numerous other contributions to my professional and personal development, I am extremely grateful to them for their uninterrupted support and encouragement. Three other people, whom I will never be able to thank enough, are my mom, my dad, and my husband Çagatay. Without my parents who always have put their children and their children's education before everything else, I would have gotten not even close to starting a PhD. Without Çagatay's unending patience and daily support, I would not have been able to finish it.

Of course there are many more people and institutions I would like to thank for their contribution: the banks and their managers without whose co-operation this research could not exist; the professionals at the Turkish Banks' Association, who were of great help for creating an accurate database; the Business Faculty and SOM Research School of Groningen University, which provided all necessary resources; the three reviewers of my thesis manuscript who provided me with valuable feedback; and last but not least, all friends, colleagues, and family members who shared all the ups and downs.

Groningen, September 2006

CONTENTS

PART – I

THEORETICAL BACKGROUND AND RESEARCH FRAMEWORK

Chapter 1

General Introduction

This thesis aims to account for "how organisations change in how they differ" (i.e. change in diversity) and "how organisations differ in how they change" (i.e. diversity in change). The framework for analysis encompasses an industrial sector, or organisational field, as well as the individual organisation. It thus deals with the evolution of individual organisations as well as of constellations or collectives of organisations. The ultimate purpose is to explain how the general organisational panorama of a field can vary over time, by attending to and integrating different sources and dynamics of such variation at both organisation and industry/field level. Furthermore, it attempts to demonstrate how this objective can be achieved by drawing upon and combining different theoretical streams and perspectives. In particular, these are institutional and ecological theories, resource dependency and strategic choice perspectives, and business system and societal effects approaches. The multi-theoretical framework allies with contextual conceptions of organisation rather than universal ones and takes the side of structuration arguments concerning the debate on determinism and choice.

The empirical setting used to pursue the above mentioned general objective is the Turkish banking sector. Banking in Turkey is a pertinent case of a modernizing society/economy and sector opening up to global financial markets, practices and actors in a relatively short time. It has been under pervasive and rapid tendencies of opening up to global financial markets, which potentially threaten given institutionalized patterns, both templates/practices and actor constellations. 'Globalization' reiterates that the global extension of markets breeds cross-national actors and associated business recipes. Financial markets are a clear and to some extent extreme case for the global emergence and diffusion of economic actors as well as business and organisation templates and recipes. Altogether, these make it a particularly interesting case of enterprises in a sector, economy, and society, in which to examine and explain the factual evolution of organisational and business templates and practices. Furthermore, it also represents a relevant case to investigate the prevalence of isomorphic templates and forms that can emerge and persist with types of actor and environmental constellations. As such, it enables the investigation of several important questions, which help address the above-mentioned central theoretical objective. These can be summarized as follows: What is the nature of changes that are observed in business templates and recipes? How significant and pervasive are these changes? How are these related with different actor constellations and changes in those? To what extent and in which ways do these point towards isomorphism and to what extent to diversity and variation? And how are these linked with actor constellations and their adjustments?

The entire study can be characterized as a historic / longitudinal case study of the "transformation" of Turkish banking sector, with multiple levels, multiple units, and multiple methods of analysis, including sub-cases. The above-mentioned questions were investigated using two complementary and consecutive studies. The first stage study identifies the dynamics of inter-linked actor constellations and business and organisation templates and practices at the industry and (sub)-population level. In addition to resulting by itself in outcomes bearing theoretical implications, this first stage study also provides outputs that serve as an input for the second stage. The second stage of the investigation consists of comparative enterprise case studies exploring the precise rationale, process, and paths of development of different types of actors.

Being about change and stability, this study has an important longitudinal / historic dimension. We trace the development of an entire sector (and its sub-populations as well as individual organisations) over a substantial stretch of time. In other words, the study captures the behaviour of each and every firm that was ever part of the industry during the entire forty-year period that forms the focus of study. Also being about differences and similarities in economic actors' responses to a commonly experienced change, the study also has an important cross-sectional dimension and covers different sub-populations / relational firm groups as fully as possible. It therefore features 'breadth' as well as historical 'length'. Furthermore, it also entails in-case 'depth', in order to take sufficient account of salient organisational and contextual aspects that cannot be captured through more standard data that pertain to the larger scale study.

The macro-level study in the first stage, which involves the entire set of firms in the chosen sector, uses quantitative data and methods. Both qualitative and quantitative data and methods are used in the micro studies in the second stage during the in-depth enterprise case studies. Both studies possess however a longitudinal and a cross-sectional dimension, that is, both studies involve comparison of phenomena simultaneously across time and across firms.

The thesis is divided into four sections. The following two chapters in Part I lay the groundwork. Chapter 2 explains the general purpose and starting point of this study and provides the theoretical background. Chapter 3 presents the research approach, including the overall analytical framework, the central analytical puzzles forming the main research topics, and the specific research model(s) applied.

In Part II, Chapter 4 describes the general institutional-economic context of the Turkish (commercial) banking sector and the changes therein, which constitute a major component of the empirical model specified in Chapter 3. The following chapters in Part II cover the industry level research. Chapter 5 provides details on constructs, variables and data used in the first-stage macro study as well as explaining data analysis methods. Chapter 6 presents and discusses the results.

Part III takes up the organisation- or micro-level study. Chapter 7 describes the study case methodology and set-up. The following three chapters (Chapter 8, 9, and 10) provide a comparative organisational analysis in three different chronological contexts, along with preliminary conclusions.

Finally, in Part IV, Chapter 11, the results of the two studies are compared and combined in order to provide a more integrative an overall grasp of the theoretical implications of the two studies together by relating these to the more general topics and objectives discussed in Chapters 2 and 3. The contrasts and complementarities between the two studies, both from a theoretical and a methodological perspective, are discussed, and some further conclusions are drawn regarding the role of theoretical and methodological eclecticism in organisation science.

Chapter 2

Purpose of Research and Theoretical Background

Accounting for multifaceted realities and generating a complete view of complex organisational phenomena means that theory building should be more a search for comprehensiveness stemming from different worldviews. For a comprehensive understanding, relevant perspectives need to be evaluated and juxtaposed such that multidimensional representation of organisational phenomena can become possible. In this chapter, we will discuss the foci of major perspectives in organisation theory and outline how each can be relevant for addressing questions regarding *(organisational) elasticity-inertia* and *(inter-organisational) isomorphism-variation.* Linking these to different conceptions of *organisation-environment relation* and *organisational effectiveness,* we will discuss the different as well as complementary aspects of these theories, starting from an equally distant standpoint to all (Aldrich, 1992). In the following chapter (Chapter 3), we will then provide a comprehensive, multi-level analytical model, which links the main theoretical concepts and constructs pertaining to the theories discussed in this chapter. Together, these will serve as an overall analytical backdrop for the main issues addressed and the specific relationships investigated in this study (which are also discussed in Chapter 3).

2.1 Perspectives on Organisation-Environment Fit, Organisational Effectiveness, (organisational) Elasticity-Inertia, and (inter-organisational) Isomorphism-Variation

Table 2.1 provides a general overview of the foci of the theoretical perspectives that are discussed below. We should note that in the more recent drift of these approaches one can come across increasingly more differentiated and sophisticated conceptualizations and important departures from earlier cruder assumptions which characterize the seminal literature and grounding work. Our intention is not so much to thoroughly present the most recent state-of-art in these perspectives, but to provide a relevant and useful background to some of the major notions addressed in this study. Although, in some instances, this may come at the cost of an inevitably superficial treatment of certain approaches, we presume potential benefits from explicating traditional differences in the treatment of fundamental notions.

Table 2.1 MAJOR PERSPECTIVES IN ORGANISATION THEORY AND THEIR ANALYTICAL FOCI

Level of Analysis	Societal Effects (SE) / National Business Systems	New Institutionalism	Population / Organisational Ecology	Resource Dependence and Power
Society	Dominant Forms of Business / Societal Archetypes			
	Depends on • Tight-Loose Coupling • Actor-System Dialectics			
Sector / Field	Functional Equivalence Between Societies OR Sector-Society Match (Fit)	Institutionalised Archetypes	Diversity (Distribution) of Forms / Populations	
	Dependent on • Industry Characteristics • Societal Characteristics • International Competition	Determined by • Coercive Isomorphism • Normative Isomorphism • Mimetic Isomorphism	Determined by • Resource Partitioning	
Population			Population Characteristics	
			Determined by • Entries, Exits and Survival, Carrying Capacity • Org. Change and Inertia	
Organisation	Effective Organisation Form	Organisation Form	Organisational Effectiveness (Survival)	Organisational Effectiveness
	Interdependent with • State • Finance System • Labour System • Education System • Performance Standards	Determined by • Social legitimacy, which is Determined by • Regulative Forces • Professional Norms • Mimetisim	Determined by • Competition and Resource Base • Institutional Legitimacy	Dependent on • Resource Dependencies and Stakeholder Demands • Social Network Position and Size

2.1.1 Main Variants of Institutionalism in Organisation Theory: Societal Effects / National Business Systems and New Institutionalism

Common to all institutional theories[1] (see Scott (1995) for a comprehensive review of most approaches) is the stress on the relationship between social institutions and how organisations operate, and particularly, on the importance of fit between organisational practice and the characteristics of the institutional environment in which they operate. According to the Societal Effects (SE)[2] and National Business System (NBS)[3] approaches (Maurice and Sorge, 2000; Sorge, 1991, 1996; Whitley, 1994, 1999; Whitley and Kristensen, 1996), systemic features of business and organisations (i.e. governance structures and operational and managerial routines) that predominate different societal/national environments are closely associated (inter-dependent) with distinct configurations of systemic societal features (i.e. national institutions), defined by the nature of relationships between business organisations, financial markets, the state as well as labour and education systems. Here, the emphasis is on the persistence of non-identical business practices and forms of organisation in different societal / institutional environments, which can be as effective as their counterparts in other environments. In other words, such non-identical organisational features and business practices can in general be functionally equivalent of each other. In special circumstances, different societies may be predominantly populated by firms whose operating mode provides a specific comparative advantage in global markets. In this view, the emphasis on inter-societal variation is partly a result of special focus on the dominant forms of organisation, in each society. This does not necessarily preclude intra-societal variation, which is possible, depending on the tight or loose coupling of different spheres of a society / economy. In the absence of substantial external pressure or large-scale internal conflict and widespread perceptions of institutional failure such configurations would normally remain quite stable (Whitley, 1992, 1999; Djelic, 1998).

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[1] According to Scott (1995), institutions consist of cognitive, normative, and regulative structures and activities that provide stability and meaning to social behaviour. They are carried by cultures, social structures and routines, and operate at multiple levels, ranging from the world system and societal level to organisational fields, organisations, and organisational subsystems. The normative pillar draws upon values and norms as major institutional forces and refers primarily to a logic of appropriateness that is related with social obligations. The regulative pillar emphasises the role played by rules and sanctions as major institutional forces and refers to a logic of instrumentality which is related with expedience. The cognitive pillar focuses on the ways or frames through which meaning systems are constructed and reconstructed in social action and refers to a logic of orthodoxy that is related with taken-for-granted behaviour. It shouldn't be misleading to say that the national business system approach is focused on the regulative pillar of institutions, deals foremost with social structural carriers, and conducts analysis at the societal level, whereas the branch that addresses isomorphism in institutional fields focuses on the normative and cognitive pillars, deals with culture and routine as major institution carriers and conducts analysis at the intermediate level of organisational fields. This focus of attention can however have important consequences in terms of key notions such as power and interests versus conformity, taken-for-granted behaviour versus strategic choice, legitimacy versus efficiency and may result in as polar a view of organisations as could be associated with "social realism" at the one extreme and "social constructionism" at the other, meaning that actors and relations are conceived as either "embedded in" or "constituting" social structures.

[2] According to Sorge (1996, pp. 74-75) societal effects are concerned with lateral, reciprocal relations between any subdivided systems or spheres of society, such as the organisational, human resource, industrial-sectoral, labour market, and technical.

[3] National Systems of Economic Co-ordination and Control is shortly referred to as the National Business System.

Research examining the effects of universal contingencies, again and again, find that such context-specific relational aspects, resource dependencies and inter-dependencies, and the specifics of how individual organisations manage, control, and shape the different demands on them, are at least as much, if not more, important than some universal contingency factors. Empirical tests show that both groups of factors are related with organisational strategy and structure (Harzing and Sorge, 2003; Gökşen and Üsdiken, 2001; Hung and Whittington, 1997). Furthermore, as put by Sorge (1991, p.184, 186), organisational performance is likely to be "due not to the match between specific task contingencies, strategies, organisation and human resources, but to the capacity to link up distinct and even opposed task contingencies and strategy elements", which calls for detailed studies of "the interaction between societal and industry profiles" and "the enactment and continuous re-enactment, including innovation and change of business strategy, organisation and human resources". Studying the dynamic nature of the organisation-environment relation and what this might imply for organisational performance and effectiveness, would call for the incorporation of theoretical concerns other than task contingencies into studies within the framework of Societal Effects and National Business Systems. In order to understand organisational success and effectiveness in the context of social, economic, and political processes and structures, we also need to consider the sophisticated dynamics of processes at multiple levels by looking through the lens of some other theoretical perspectives.

The New Institutional approach (Powell and DiMaggio, 1991; DiMaggio and Powell, 1991) for example, stresses the influence of coercive, normative, and cognitive factors on the set of organisations that share a more specific, common institutional environment, which is the inter-organisational field.[4] Here, the organisation-environment fit, and hence organisational effectiveness, is regarded to be a function of the extent of an organisation's adoption of socially 'legitimate' activities and templates (which also gives rise to isomorphic processes in an organisational field). This, in turn, is closely related with three different phenomena: (1) submission to coercive forces such as state regulations, (2) adjustment of activities to prevailing norms and values of the profession, and (3) adoption of cognitively legitimate templates in a taken-for-granted manner or through copying successful role models, all of which would contribute to isomorphism among participants of a given sector or field. In this view, institutional legitimacy is considered an important prerequisite for organisational effectiveness, as are technical/technological requirements. Unlike the SE and NBS approaches, which treat institutional and technical requirements as closely intertwined, according to the New Institutional approach, these may or may not be congruent. In the latter case, organisational accommodation to both types of requirements is considered possible through de-coupling of activities that are related with different types of requirements, and might become essential for organisational effectiveness. According to New Institutional predictions, within a given society, different inter-organisational fields can have their own separate templates, and similar fields in different societies can also operate according to a common or similar template.

[4] According to DiMaggio and Powell (1991, pp. 64-65), by an (inter-)organisational field is to be understood the "organisations that in the aggregate constitute a recognised area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organisations that produce similar services and products. Once disparate organisations in the same line of business are structured into an actual field (by competition, the state, or the professions), powerful (coercive, mimetic, and normative) forces emerge, leading them to become more similar to one another… Mimetic isomorphism is likely to result from standard responses to uncertainty, and normative isomorphism is associated with professionalisation."

2.1.2 Population Ecology

Population Ecology[5] (Carroll, 1988; Hannan and Freeman, 1989; Hannan and Carroll, 1992; Carroll and Hannan, 1995) deals with the issue of organisation-environment fit and organisational effectiveness by bearing regard to competitive and institutional forces and their interaction in a given population of organisations. As in New Institutionalism, legitimacy is a major concept drawn upon and incorporated in the basic principles of this perspective. In addition to legitimacy, the total amount of available resources ("carrying capacity") and the extent of competition for these resources are considered a crucial determinant of organisational founding, disbanding, and survival, and therefore, effectiveness. In this view, change in an industry would mainly come through the circulation/turnover of firms, that is, through the founding of new firms, which use new forms of organisation and production, and the disappearance of others. Sector-wide change through organisational learning, adjustment, and transformations is not considered as an important vehicle of change. The major reason is the inertia of organisations, which would stem from personal stakes and institutionalised routines. It might be even beneficial because stability in organisational behaviour and routines is considered an indicator of accountability and predictability, which may be very valuable to different stakeholders. Standard Population Ecology models take the density of firms in a sector as an indicator of both competition as well as legitimacy. They posit that after a certain optimum density, the effects of competition would over-ride those of legitimacy and drive some players out of the market unless some resource partitioning takes place within the given sector or population. Thus, the selection mechanism is conceived as the 'free market' where firms would be competing fiercely with one another for limited resources as well as for social legitimacy.

There exists a certain amount of concern in these streams of literature with context-specific regulations, professional norms, and other available cognitive templates as well as with the constraints emanating from inherently competitive nature of the industrial organisation. However, the conception of organisations is rather in the form of passive subjects of largely uncontrollable or unmanageable external forces. In fact, any 'universal' recipe for success can become compatible with such a deterministic account, to the extent that these present themselves in legitimacy concerns, having the more far-reaching effects, the higher the extent of overall competition. However, through the partitioning of resources between institutional contexts such as nations or societies, and, depending on the nature and strength of competition, it may also be possible that these different contexts become populated by firms which are specialised in different forms of production and business, even within a given industry.

Carroll and Hannan (1995) contend that, over the years, Population Ecology had come to accommodate for some of the major tenets of institutional theory. It had started to emphasise the role of governmental regulation and cultural change when analysing environmental selection. It drew upon institutional processes as a predictor of segregating processes in community dynamics. While attending to such central problematics in institutional theory and also incorporating more differentiated and sophisticated conceptualisations of organisational change and heterogeneity (cf. Carroll and Hannan, 2000), the empirical focus of the ecology framework has been on organisational foundings and disbandings (cf. *Organisation Studies*, 21/2, 2000). In more recent treatments of

[5] Population ecology is sometimes also referred to as organisational or institutional ecology.

organisation level inertia-change and differentiation, either, the emphasis has been on the hazardous effects of change (cf. Carroll, Hannan, and Polos, 2003), or, the empirical focus remained rather restricted to an analysis of product and business portfolios (cf. Wezel and Witteloostuijn, 2006). Thus, the main research focus and concern of Population Ecology has been somewhat detached from a holistic examination of organisational processes and organisational enactment of the environment.

2.1.3 Resource Dependence and Power Perspectives

Other less deterministic theoretical approaches focus on power and resource dependence aspects of organisational behaviour and relate these to organisational effectiveness (Pfeffer and Salancik, 1978; Perrow, 1986). Here, the capability of an organisation to fulfil the expectations of its resource providers / stakeholders is considered to be the most crucial prerequisite of organisational effectiveness.

Pfeffer and Salancik (1978) contend that resource dependence between an organisation and its major stakeholders is the major determinant of the extent of an organisation's power. The higher the amount, the significance, and the extent of concentration of resources, in whatever form and way, provided and controlled by any stakeholder, the more powerful becomes this party and has higher potency for controlling the focal organisation. In that case, it is possible to speak of a situation where the latter is dependent on the former. In general, organisations are better off if they can avoid the concentration of their valuable resources and become concentrated providers of important resources themselves. They can better manage their environment, minimise important uncertainties and risks, stabilise their activities and performance, and enhance their viability. In this particular and other similar treatments of the subject, organisational size and market share (Perrow, 1986) and other industry-related features such as nature of inter-organisational ties, network centrality (Burt, 1993) are regarded as important factors contributing to power differentials.

Power and resource dependence arguments cannot be universalistic arguments, because power and resources are a function of several factors that have an influence on the nature of an organisation's dependency relations with its major stakeholders. Depending on an organisation's extent of dependence on each of its various stakeholders, the nature of their demands, and its ability to control, manage, and shape these demands, different paths to business functionality, performance, and effectiveness may be possible. The nature of inter-dependencies with social groups and stakeholders can lead to different forms of effective organisation in different social contexts as well as affecting their variety and change.

2.2 Determinism and Choice in Organisation-Environment Relation

Hrebiniak and Joyce (1985) argue that "classifying change as either organisationally or environmentally determined is misleading and diverts research inquiry away from the critical interactive nature of organisation-environment relationships in the adaptation process." The reasoning is consonant with resource dependency arguments, as Hrebiniak and Joyce (1985, p.337) put it:

> "If high organisational power suggests greater choice, while higher power of stakeholders results in greater environmental determinism, the occasion of a powerful organisation confronting equally powerful stakeholders indicates that high choice and high determinism may coexist. ... Thus, choice and determinism are not opposite ends of a single continuum of effect, but in reality represent two independent variables, and the interaction or interdependence of the two must be studied to explain organisational behaviour."

What Hrebiniak and Joyce (1985) called for is to a great extent fulfilled in strategic choice theory. Child (1997, p.70) sums up the major concern of strategic choice theory as an involvement with the "dynamic political processes which bring agency and structure into tension and locate them within a significant context". He describes the "dynamic process of strategic choice and evolution of organisation" in terms of two "constituent cycles which amount to a double structuration between action and situation":

> "The first cycle is one of 'inner structuration'. Within this first cycle, organisational actors seek to work upon, and are simultaneously informed or constrained by, the existing structures and routines of the organisation, including its technologies and scale. The second cycle is one of 'outer structuration', and it extends to the environment. Within this second cycle, organisational actors seek to influence or reach an accommodation with specific environmental groups and more general environmental conditions. They are thereby simultaneously informed of the opportunities for action which environmental conditions present and of the constraints which external circumstances place upon their room for action. ... Extant organisational designs and environmental conditions impose constraints upon the actions which are feasible at any point in time, but they are also the objects of intended change towards which action is directed. This gives rise to the paradoxes of simultaneous choice and constraint, change and continuity. The strategic choice perspective assumes that each of the cycles is accomplished through social interactions, both within organisations and with external parties, which are political in the sense that outcomes emerge through persuasion, negotiation, or even imposition."

Child (1997) reminds us that the social structuring of environments can be enabling as well as constraining for strategic choice and that organisational learning is central to organisational evolution as it tackles both action determinism[6] and environmental determinism.

Parallels can be drawn from other literature (Oliver, 1991, 1992; Holm, 1995), which question the power of institutional forces and discuss the possible determinants of resistance to and manipulation of institutional forces. Heavily drawing upon resource dependency and power perspectives, such considerations suggest that it would be essential in an analysis of organisational change, to consider the factors affecting the power of both the organisation and the environment and influencing strategic choice.

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[6] In Child's (1997, p.50) words: "The concept of action determinism draws attention to the relevance of predetermined mind-sets for the interpretative process which takes place when strategic choice is exercised and it accounts for how these could limit the range of choices recognised and considered. It points to the significance of managerial cognition, and of the factors shaping it, for an understanding of strategic-change process in organisations."

2.3 Re-Visiting the Variants of Institutionalism in Organisation Theory

Although institutional theories, at least in their old version (i.e. Selznick, 1948 as cited in Scott, 1995), had clearly recognised the role of such interdependencies and the implications of these for agency and strategic choice, the New Institutional Theory (DiMaggio and Powell, 1991) has not been able to incorporate this important aspect of organisational behaviour into its explanations despite much criticism in that respect (e.g. Oliver 1991; Greenwood and Hinings, 1996; Selznick, 1996). The core notions of the new institutionalist perspective, i.e. the coercive, normative, and mimetic processes, reflect the very idea that organisations behave under direct and strong influence of laws and regulations enacted by the state and its regulatory bodies as well as of norms and values emerging from within a certain profession or from practices of important industry participants. Societal Effects and National Business System perspectives on the other hand, though not explicit in addressing the issue of power differentials and its various implications, are better equipped to incorporate and explain these. This is because the perspective emphasises the very notion of inter-dependency, both between different social / societal spheres and between an organisation / economic actor and its resource providers or stakeholders.

To the extent that the demands of resource providers / stakeholders are society (business system)-specific, the Resource Dependence and the SE / NBS perspectives can be said to be treating the issue of fit and effectiveness in a similar way. Actually, by stressing the interdependencies between societal dimensions, the latter approach in a way already incorporates the role of resource dependencies in its models, but emphasises the variation between societies in terms of predominantly available resources as well as variation in the expectations of predominant resource providers. Indeed, the Resource Dependence and Power perspective can easily accommodate the concerns of SE and NBS if social institutions are conceptualised in terms of the resource dependence relations of social stakeholder groups.

The specific configuration of social stakeholder groups and their relations in each national business system are the most significant determinant of which resources and social dependencies become crucial for business success. It is quite evident that the interrelations of different interest groups and stakeholders, such as the state, capital providers and business elite as well as major financial stakeholders cannot be static. Whatever socio-economic structure depicted in snapshots of NBS configurations, is nothing less than subject to continuous negotiation and re-negotiation between such interest groups. Thus, an endless process of social construction takes the place of an unlikely state of social consensus and equilibrium. Thus, the terms of organisational success would normally depend on the evolving patterns of social and political power struggles. However, unless a severe crisis and complete institutional failure is the case, such struggles might fall short of changing the institutional landscape in a radical manner, because this would require significant change in all aspects of the institutional environment including all facets of social-economic institutions, structures, and relations.

Although its theoretical orientation and analyses are based on this premise (see Sorge, 1996; Whitley, 1999), the NBS perspective has not specifically addressed these considerations in empirical work and fully incorporated them in analyses of change and diversity. In that regard, it is necessary to enlarge and refine previous analyses of power and resource dependencies (Pfeffer and Salancik, 1978; Perrow, 1986) by looking at different national business systems and underlining the nature of important social / societal resources available to organisations in a particular system and their major stakeholders. At the same time, it is also necessary to refine the premises and postulations of the NBS perspective by explicating the determinants and implications of power differentials among economic actors. With that in place, it is more straightforward to test these postulations against those of the New Institutionalist perspective.

In both strands of institutional theory, there is the common understanding that institutions are conceived as an important source of stability and continuity in social and organisational conduct as well as an important medium contributing to cohesion and identity in a given social system. However, they also diverge on some important grounds or in terms of important conceptions of social and economic conduct. It is possible to stylise the differing stances of these two streams of institutional theory, concerning the question of how certain business practice in a given institutional context changes or persists over time, the role of economic actors in this process, and how much variation can prevail. This calls for at least two major considerations. These concern isomorphic forces and processes on the one hand and social interdependencies and power structures on the other. Such an analysis needs to take into account these two aspects of social and economic behaviour and how these interact with one another, because neither stability and change, nor coherence can be understood without reference to notions such as power, interests and strategic choice (Child, 1997; Oliver, 1991). In other words, they do not come about by mechanical reproduction of existing patterns and structures but depend on actor constellations and the choices they make. The two perspectives have somewhat contradictory but complementary implications in that regard. Very briefly, these can be summarised in terms of four interrelated concepts.

The first deals with the conception of economic actors. The NBS perspective views economic actors and socio-economic systems as reciprocally dependent on each other and as constituting each other in an ongoing process of structuration (Giddens, 1984). This view grants more power and higher latitude for choice to economic actors, and consequently, is more open to the incorporation of political processes to the operation of social systems. The new institutionalist perspective on the other hand, has a more passive conception of economic actors, grants little room to the role of agency, strategic choice, and political processes. Its overemphasis on automatic conformance to social norms and pressures leads to an over-socialised conception of economic actors, which is another extreme opposing the under-socialised conception typical of most economic approaches.

Second, by underlining the interdependency between different dimensions of a certain social / societal system, the former perspective predicts system cohesion, which is albeit susceptible to change. In this perspective change is considered as an inevitable result of the constant state of disequilibrium that stems from the dialectic tension inherent to the reciprocal interdependence of actors and the social system. The latter perspective however, by underlining the effect of the coercive, normative, and mimetic processes at work in a certain inter-organisational field, predicts convergence to a given institutional template and therefore institutional isomorphism.

The third item is closely related with the previous one. Because of its emphasis on field or sector level isomorphic processes, the latter does not exclude the possibility of global convergence to a business or sector recipe. At a minimum, it considers this a likely outcome, provided that international channels are open to the diffusion of isomorphic processes. In contrast, the former perspective clearly parts with this stance and emphasises inter-societal diversity. This is because any international or outside influence on a certain dimension of a given societal system would always be moderated by practices in other societal dimensions due to the inherent system interdependencies. In that view, there can never be true inter-societal convergence or replication but only non-identical reproduction.

Fourth, because of its overemphasis on isomorphic processes, conformity to norms, taken-for-granted behaviour and convergence, the latter, more than the former, predicts stability and continuity in institutionalised forms of conduct and organisational templates. Change is rather associated with convergence towards a strongly established template ("isomorphic change"). In a way, stability and inertia are considered as both an outcome of and a contributor to institutionalisation. In comparison, the former perspective considers change possible, and even inevitable for the maintenance of institutions, albeit with an important qualification. As a natural extension of the interdependency between actors and the system and between a given set of societal dimensions, it also views "actor-system constellations in time" as being strongly interdependent. In other words, any change in a given societal dimension can be expected to exhibit certain continuities and therefore path-dependence. Yet it leaves the question open as to how significant or strong such path-dependence can be; that would depend on the dialectical tension between actors and the system as well as between the relevant societal dimensions.

These four oppositions are unsatisfactory, if a more socio-politically informed conception of path-dependence is to be established to replace an unreflective attribution of continuity and stability to impersonal pressures so often associated with institutional forces. This means that the oppositions mentioned above need to be addressed in a manner that focuses on economic actors and makes a differentiation with respect to their power base and the dynamics of its unfolding through internal and external structuration processes.

2.4 Need for Multi-Paradigm Perspective and Theoretical Eclecticism

We have established that the organisation-environment relationship has been part of a number of different approaches and perspectives in organisation theory (from resource dependency and power perspectives to ecological and institutional theories). The power of the environment[7], or the constraints and opportunities this poses for organisations, are not ignored in any of these different lines of thinking. Though all of these perspectives include the environment in some form or another in their models, they differ in how they explain change in the variation of organisational panorama over time and across place and in how they treat the role of the relationship between organisations and their environment for (organisational) inertia-change and (inter-organisational) isomorphism-variation.

These controversies are best addressed from a multi-paradigm perspective, without a predisposition to selection or adaptation based views. The only disposition that guides this study is that most organisations are neither completely inert nor extremely adaptive and a certain amount of both inertia and adaptive capacity exists in every organisation, pulling and pushing it in various directions. It will be argued here that over time, the organisational variety in any industry or (inter-)organisational field can vary due to

[7]The concept of environment entails both institutional and task environment. The former can be society specific, supra-societal, or peculiar to a specific inter-organisational field.

disbanding and founding of organisations as well as transformations that existing organisations may undergo, which makes it essential to investigate the factors and processes leading to prevalence of inertia as well as adaptive capacity and elasticity, and, how these relate to variation. What such investigation needs foremost to consider will be explained through the multi-theoretical model presented in the following chapter, linking the different conceptions discussed in this chapter. The main issues and topics emerging from that general analytical backdrop will then be discussed and translated into more specific research objectives and model(s) investigated in our empirical research.

Chapter 3

Research Approach, Main Topics, and the Research Model(s)

The theoretical arguments and controversies that were laid out in Chapter 2 call for multilevel investigation of several types of organisational phenomena and their relations. Studies of individual organisation need to relate the organisation level phenomena to population level, field/sector level and societal level phenomena. Studies at the societal level also need to extend the scope of analysis beyond studies of individual organisations to include studies of a whole sector/field and of the dynamics at the population level. Only through such an approach can we understand organisational effectiveness in time and space and the stability-change and isomorphism-variation in organisation forms.

In the first section of this chapter, we will demonstrate the importance of multilevel analysis for studying organisation-environment relationship and organisational effectiveness, and for that matter, the determinants and consequences of (organisational) inertia-change and (inter-organisational) isomorphism-variation, by incorporating different theoretical constructs into a general analytical framework. Elevating the level of thinking to that of a *meta-perspective* (Gioa and Pitre, 1990), this should serve as a basis for enhancing dialogue between theoretical positions (Aldrich, 1992) as well as addressing apparent *paradoxes*, such as strategic choice and determinism, inertia and change, isomorphism and diversity, which inevitably emerge when different theoretical perspectives are combined. This is quite important, because the level of analysis differs significantly among different theoretical approaches and testing the combined role of an apparently divergent array of factors requires some attention to bridging cross-level effects and to relevant conceptualisations and propositions. With that overall analytical backdrop in place, we will point out and discuss in the second section some of the *major puzzles* emerging from that analytical model. These puzzles or issues will serve as the main research topics. Finally, we will present the specific *research model(s)* around which we structured our empirical study addressing these topics.

3.1 Linking Theoretical Predictions in a Multi-Theory, Multi-Level Analytical Model

The model presented in Figure 3.1 links the main predictions of theoretical perspectives discussed in the foregoing section. Putting together the variety of direct and indirect relations between constructs borrowed from different theoretical perspectives, it aims to reflect the dynamics of (mutual) relationship between different levels of analysis. The straight lines indicate causal relationships, the dotted lines the translation / aggregation of lower level outcomes to the higher / aggregate levels of analysis. The different levels of analysis that are implicit in the model are further clarified in Table 3.1.[8]

[8] In doing multilevel research, the researcher has to consider the nature and type of variables each existing at different levels (Hox, 1994). Are variables measured at their natural level, or are they moved from one level to the other by aggregation or disaggregation? On different levels, variables and their relationship to variables at other levels can be of different types. Hox (1994) refers to five different types of variables: “*Global* and *absolute* variables refer only to the level at which they are

Evidently, the model depicts a closed loop of relationships. However, in order to discuss the relations among its components we have to start somewhere. Beginning with the box in the lower right corner of the figure, we can work out the causal relationships in the reverse order.

- Organisational effectiveness (ineffectiveness), as most simply indicated by survival (disbanding), depends on the extent an organisation can deliver to the expectations of its stakeholders and so generate a continuous stream of needed resources [see → a].

- Its ability to do this depends on the extent its strategies, operational routines and governance structure support its performance goals and thus the fulfillment of its stakeholder demands [see → b] in the face of competition from other organisations [see → c].

- Its performance goals and strategies, operational routines and governance structure to achieve its intended goals will in turn depend on how well it can respond to the demands of its stakeholders and manage resource dependencies as well as the social legitimacy concerns emanating from professional norms, industry regulations, and available business models and recipes [see → d].

- Whether the specific business template, i.e. the configuration of strategies, routines, and structures that is required for meeting the requirements mentioned in item (3) is associated with change in current practice [see → e] will depend on the interaction of different resource dependencies and stakeholder demands [see → f] as well as the possibilities determined by organisation size and institutionalised habits and routines as reflected in organisation history and age [see →g and → h].[9]

- The nature of resource dependencies and stakeholder demands will depend on the relations and relative power of different social stakeholder groups including the state, the capital providers and other financial stakeholders, the business elite, labour, and management as well as customer and supplier groups [see → i] and the specific role and position of the organisation within the industry structure [see → j].

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defined, without reference to any other units or levels (*absolute variable* is simply the term used for global variables defined at the lowest level). *Relational* variables also refer to one single level, they describe the relationships of a unit to the other units at the same level (e.g. social or economic indices). *Analytical* and *structural* variables are measured by referring to the sub-units at a lower level. Analytical variables refer to the distribution of an absolute or a global variable at a lower level. Structural variables refer to the distribution of relational variables at the lower level (e.g. network indices). Constructing an analytical or relational variable from the lower level data involves *aggregation*: that is, data on lower level units are aggregated into data on a smaller number of higher-level units. *Contextual* variables, on the other hand, refer to the super-units; all units at the lower level receive the value of a variable for the super-unit to which they belong at the higher level. This is called *disaggregation*: data on higher level units are disaggregated into data on a larger number of lower level units."

[9] The variable "organisational institutions/institutionalisation" or "history" were not mentioned in Table-1, because these are factors to consider in inter-temporal / diachronic relations between organisation-level, i.e. same-level, phenomena, whereas the table presents relationships between multi-level phenomena. However, they can easily be conceptualised as organisation level contextual variables, derived from absolute and relational variables at the same level, yet in an inter-temporal context.

- The extent to which the relations and power of different social stakeholder groups lead to a tightly coupled, coherent social system [see → k] will in turn influence the mutual relationship and extent of consistency between different stakeholders' demands and their social legitimacy [see →l and → m].

- Population level processes, i.e. growth-decline, emergence-extinction, transformation as well as volatility are direct results of organisation level outcomes, i.e. inertia-change and survival-disbanding [see → n and → o] as well as new entries [see → p] which all also depend on the extent and nature of competition [see → q].

- Field or sector level outcomes, i.e. the extent of isomorphism/homogeneity and variation/diversity, stability and flux as well as resource partitioning, on the other hand, are a direct result of population level processes [see → r] and in turn influence the nature of competition, the field structure as well as the perceptions of social legitimacy [see → s, → t, and → u].

- The field structure, on the other hand, i.e. the centres of power and their zones of influence and the specific distribution of resources among core and peripheral firms, can influence both the nature of competition among all industry participants [see → v] as well as the nature of relations and power distribution between different social stakeholder groups [see → w], which in turn determine what is observed as a specific business system configuration [see → x].

- Two additional elements are missing in the model pictured in Figure 3.1, which are included in Table3.1. As societies are not closed, independent systems, the extent of international ties and political and economic dependence can influence the extent to which global developments, business models and recipes inherent in the dominant ideologies ("Zeitgeist') and more explicit international pressures can affect societal institutions and therefore the context for effectiveness and success of organisational strategy and form.

By working out the major postulates of different theories concerning the organisation-environment interface through a web of direct, indirect, and mutual relationships, we hope to have pointed out potential linkages between those theories. Some predicted relationships in the model point at the possibility of coexistence of apparently mutually exclusive phenomena. Certain paradoxes that emerge when working within the limits of a single-level analysis might make much sense if a multi-level approach is taken, highlighting its contribution to resolving certain controversies. Having depicted an amalgam of possible relations between organisation, population, field/sector, and societal level constructs, we need to draw attention to some of the major puzzles implicit to the model. After having done so, we will present our specific research model(s) and questions addressing these issues.

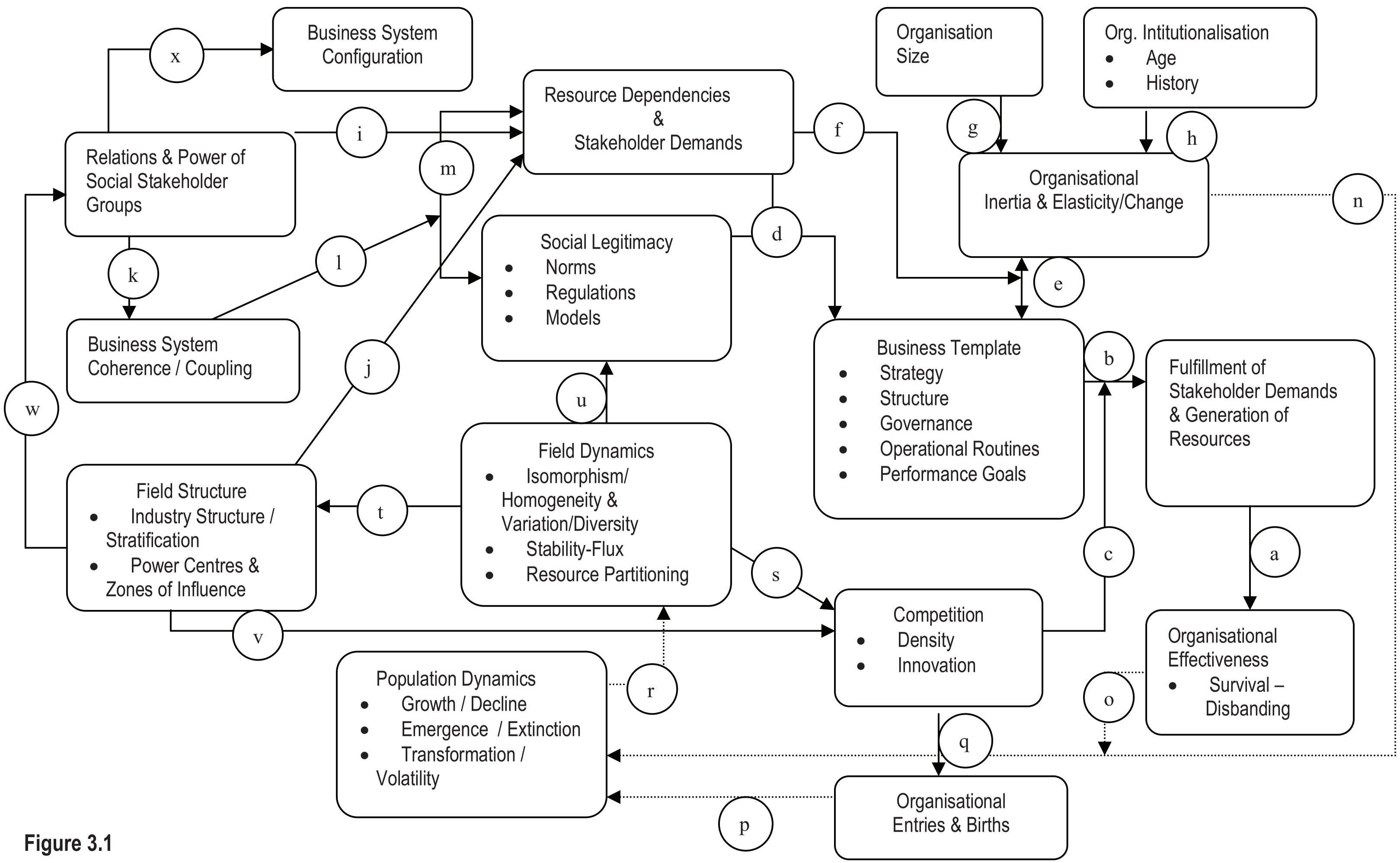
Business System Configuration
Resource Dependencies & Stakeholder Demands
Organisation Size
Org. Intitutionalisation
Age
History
Organisational Inertia & Elasticity/Change
Relations & Power of Social Stakeholder Groups
Social Legitimacy
Norms
Regulations
Models
Business System Coherence / Coupling
Business Template
Strategy
Structure
Governance
Operational Routines
Performance Goals
Fulfillment of Stakeholder Demands & Generation of Resources
Field Dynamics
Isomorphism/ Homogeneity & Variation/Diversity
Stability-Flux
Resource Partitioning
Field Structure
Industry Structure / Stratification
Power Centres & Zones of Influence
Competition
Density
Innovation
Organisational Effectiveness
Survival – Disbanding
Population Dynamics
Growth / Decline
Emergence / Extinction
Transformation / Volatility
Organisational Entries & Births
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Figure 3.1

Table 3.1

Level / Unit	Variables and their Nature / Role at Different Levels of Analysis								
Organisation	Absolute/Global	Relational	Contextual						
	- Business Temp. [Strategy, Struct., Govern., Routines, Perform. Goals] - Res. Generation - Effectiveness [Survive-Disband] - Inertia-Change - Entry-Exit - Size - Age	- Network Loc. / Industry Position (Core-Periphery) - Market Share - Relative Size - Relative Age - Inter-org. Isomorphism / Differentiation	- Competition - Social Legitimacy - Resource Dependencies & Stakeholder Demands - Volatility & Complexity						
	▼	▼	▲	▲			▲		
Population	Analytical	Structural	Global	Relational	Contextual				
	- Growth-Decline - Emergence-Extinction - Transformation - Volatility	- Industry Structure / Stratification	- Resource Space - Density - Innovation	- Relative Density - Niche Distribution	- Social Legitimacy - Resource Dependencies & Stakeholder Demands				
	▼	▼	▼	▼	▲	▲		▲	
Field / Sector / Industry	Analytical	Structural	Analytical	Structural	Global	Relational	Contextual		
	- Homogeneity-Diversity	- Centres of Power & Zones of Influence	- Stability-Flux	- Resource Partitioning	- Norms - Regulations - Models	- Coupling / Interpenetration with other Fields	- Resource Dependencies / Stakeholder Demands		
	▼	▼	▼	▼	▼	▼	▲	▲	▲
Society	Analytical	Structural	Analytical	Structural	Analytical	Structural	Global	Relational	Contextual
	- Homogeneity-Diversity	- Centres of Power & Zones of Influence	- Stability-Flux	- Strength of Interdependencies & System Coherence – Coupling	- *Zeitgeist* & Dominant Ideology	- Nature of Relations and Power of Social Stakeholder Groups - Strength of Interdependencies & System Coherence – Coupling	- Business System Configur. --State --Fin. S. --Educ. S. --Labour S. --Dom. Bus. Form	-International Openness / Ties - Inter'ntl Dependence	- Global Developments / Models - International Pressures

3.2 Key Puzzles Emerging from General Analytical Model

3.2.1 Parts-Whole Relations and Actor-System Dialectics

The most central debates in organisation theory involve arguments on selection-adaptation and determinism-voluntarism (Hrebiniak and Joyce, 1985; Astley and Van de Ven, 1983). These are closely related with the dialectics of system-actor and structure-action relationships in social theory (Burrel and Morgan, 1979; Hollis, 1994; Layder, 1994). Structuration theory (Giddens, 1984) lays down a conceptual resolution of paradoxes inherent in the dialectics of part-whole relationships. In organisation literature, Child (1997) and Sorge (1996) respectively present a good overview of how organisation strategy and societal effects can be conceptualised on the basis of structuration theory. The framework presented in this study emphasises that theoretical resolutions of such controversy can be supplemented with empirical studies dealing with multilevel analysis. The essential considerations include (1) longitudinal analysis of phenomena at multiple levels, (2) the effects of higher level phenomena on lower level phenomena, and (3) the way lower level phenomena translate into and manifest at higher levels.

Organisations are not machines passively responding to what outside forces and stakeholders demand or dictate, but try to influence and manage their institutional and economic environment as well. As paradoxical as this might sound, what they do, i.e. the strategies they pursue and organisational forms they adopt are what constitute the aggregate population, sector, and societal properties. Such properties are the social construction of organisations or strategic agencies. Thus, when we talk about population characteristics, sector profiles, and national business systems, we implicitly refer to organisational practice. In other words, such aggregate characteristics are derived from what we observe at the organisational level. But exactly because of this, aggregate observations call for extreme care. Aggregation means that absolute/global and relational variables at the lower level are translated to analytical and structural variables at higher levels. In that respect, pointing out the distinction between shared and configural properties becomes essential to avoid possible fallacies.[10] One of the first questions to ask is then whether properties of analytical and structural variables, i.e. the variables that are translated from lower to higher levels/units of analysis, should be treated as shared or as configural properties. This is essential for clarifying the real extent of field/sector level isomorphism as well as the real extent of intra-societal homogeneity of business practice.

Shared (homogeneous / isomorphic) properties might speak for deterministic relations, whereas the configural properties reflecting variance and diversity would attest to actor-

[10] Klein and Kozlowski (2000) mention three types of properties: "*Global* properties are relatively objective, descriptive, and easily observable, there is typically no need to collect data from all of the members of a unit to assess a global (unit) property. *Shared* properties … are held in common by the members of a (unit). In postulating that a given variable is a shared (unit) property, theorists and researchers ideally explain how and why (unit) members come to share the construct of interest: What factors or processes constrain variability among (unit) members, rendering the construct a shared property of the (unit)? Like shared (unit) properties, *configural* unit properties, originate in, or emerge from, individual (unit) members behaviours. Configural (unit) properties, however, capture the array, pattern, or variability of individual characteristics and constructs across the members of a (unit)… The mean of individual members' characteristics is generally not an appropriate summary statistic to depict a configural unit property, although it may be combined with an indicator of variance or dispersion."

system/structure dialectics. In a way, it would point at the bottom-up side of the dialectical relation and at the socially constructed nature of most higher-level, system properties. This highlights the opposite or absence of determinism. In fact, establishing whether an emergent process is compositional or compilational[11] might not necessitate a longitudinal analysis and checking the distribution of properties at a lower level might be a sufficient surrogate. Although sounding somewhat paradoxical, the process of emergence can, at a minimum, be examined through synchronic analysis consisting of cross-section comparisons.

The opposite direction of the dialectics inherent in the parts-whole relationship, i.e. the top-down influence, calls for longitudinal analysis. As higher-level properties constitute only the contextual properties of lower-level units/phenomena, a simple cross-sectional association would be insufficient for establishing any causal effect. This would only be possible through longitudinal, diachronic analysis, which shows how contextual properties really affect the units it contains. Furthermore, only if the diachronic effects of the context on outcomes at the lower level indicate a compositional/isomorphic process at the higher level at the following point in time, then would we be able to speak of a deterministic relationship as opposed to actor-system dialectics. It follows from this that it is essential to look at longitudinal (diachronic) relations for establishing top-down effects instead of attributing an overarching deterministic capacity to super-units and the contextual properties that they represent. At the same time, it is crucial to check the extent to which properties are shared among lower-level units, as this would indicate (1) the real extent of deterministic influence of diachronic top-down relations, as well as (2) the extent of freedom from super-unit influences that are synchronically in effect. In short, the dialectical nature of relations between lower- and higher-level units calls for synchronic as well as diachronic analyses of diversity-homogeneity of lower level outcomes or phenomena.

3.2.2 Organisational Inertia/Stability and Elasticity/Change

In Chapter 2, we established that in various streams of socio-economic studies measures of, and reasons for elasticity versus inertia are crucial. The seeming paradox of inertia and elasticity prevailing at the same time forms however a less understood and investigated aspect of organisational phenomena. The relationship between the two concepts may be more complex and entail more nuances than a simplistic dichotomy can capture. In particular, the effects of organisational change and inertia on organisation effectiveness are far from being clear. Both can be positively related to business success, as long as they imply good management of resource dependencies. If not, they can both lead to business failure. In that sense, it might become possible to speak of liability of change or liability of inertia, depending on what they imply in terms of management of dependencies. We can only speak of the liability of organisational inertia, if inert organisations are the ones that are selected out while the nature of central resource dependencies are changing at the sector and societal level. On the other hand, change can become a liability, leading to selection out, if the central resource dependencies are more or less stable. In order to address these considerations appropriately, we need to examine which resource

[11] Shared unit properties are essentially similar across levels, representing composition forms of emergence. In contrast, configural unit properties are functionally equivalent but different, representing compilation forms of emergence.

dependencies at sector and societal level are relatively stable and which ones are changing and check if matching changes and continuities lead to organisational success and effectiveness.

Furthermore, the time perspective is crucial for addressing such questions, especially in more volatile socio-economic contexts. Immediate and long-term effects of major disruptions in an industry or in major socio-economic institutions on organisations might be quite different. Under such circumstances, innovative organisations might be better off in the short term whilst inert organisations may first be negatively affected. It is important to examine the extent to which such a disruption changes the relative importance of different types of resources as well as their availability. Under what circumstances could conservatism pay off in the long term? Would that be the case only in relatively more stable economies or also in more volatile socio-economic contexts?

3.2.3 Unfolding Structuration through the Dynamics of Constraints and Opportunities Presented by the External and Internal Organisational Context

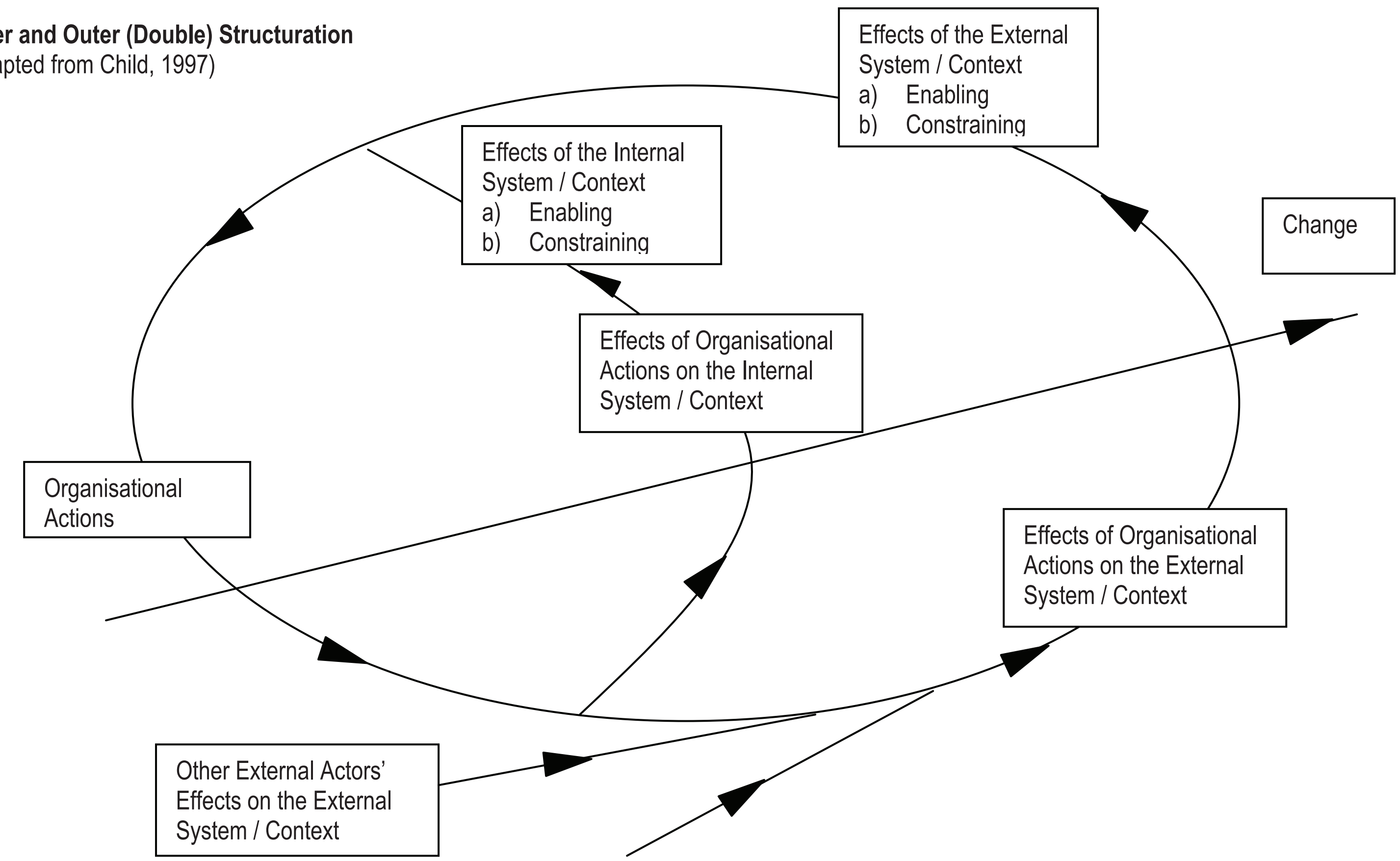
As an extension of items 1 and 2 above emerges the issue of co-existence of determinism and choice from a structurationist perspective. Figure 3.2 (adapted from Child, 1997) depicts organisational structuration and change processes from the perspective of a single organisation. From such a point of view, organisational choices are embedded and constrained by an internal and external context that are both history-dependent. These contexts can however be subject to change depending on actors' abilities to do so. Thus, we can say that choice is constrained, but constraints are also chosen and amended. The actor-system interdependence and dialectics that is captured by inner- and outer structuration processes can reveal important insights on the extent and specifics of deterministic as well as "free" choice aspects of organisational change. These should reveal the path-dependent nature of change, which means that past actions have an effect on both the internal and the external contexts, and therefore also on the future actions that are subject to constraints posed by these two contexts.

The outer structuration process reveals the dialectical interdependence between and mutual influence of the external context or system and organisational action. It thus simultaneously deals with social embeddedness and action horizons of organisations or social and economic actors. It describes how external developments lead to (enable, constrain, or even cause) certain organisational actions and adjustments and the external implications and effects of these actions and adjustments. The inner structuration reveals the dialectical interdependence and mutual influence of the internal context or system and organisational action. It thus simultaneously deals with historic embeddedness and action horizons of organisations. It describes how internal developments lead to (enable, facilitate, or hinder) further internal adjustments via the bridge of organisational actions (i.e. enabling, facilitating, or hindering certain actions).

Thus, when analysing the relationship between a given business template and practice and all the other factors that give rise to that specific template, the diachronic relationship between past and present needs to be clarified.

Figure 3.2

Inner and Outer (Double) Structuration
(adapted from Child, 1997)



3.2.4 The Relationship between Resource Dependencies and Stakeholder Demands and Social Legitimacy

How would firms shape their performance goals, strategies, operational routines and governance structures in the face of different resource dependencies and social legitimacy concerns? If organisation strategy and form are shaped mainly through isomorphic processes, with no appropriate assessment and management of resource dependencies and stakeholder demands (including a good assessment of future configurations of social and political power centres and their influence), "social legitimacy" can actually become a liability and inhibit long term business viability and vice versa. In circumstances where central resource dependencies and isomorphic pressures present incompatible or opposed constraints, firms might benefit more from resisting to follow diffusing norms and models or at least from de-coupling the implementation of practices which may increase "social legitimacy", from core operations and strategies that are more closely linked with resource dependencies. It is necessary to examine to what extent organisations do that and its implications for success and effectiveness.

As norms, regulations, and business models can change the very terms of success and effectiveness by changing the nature of demands of important stakeholders and vice versa, it is also necessary to examine the mutual influence in this domain. In situations where important discrepancies exist between demands of different stakeholders, wouldn't organisations be inclined to give priority to those demands, which are most consistent with the prevalent norms, regulation and business models, especially if competition is strong and uncertainty is strong? Yet, if they fail to take into consideration and fulfil the demands of the most powerful stakeholders, business success may be far from certain. It is therefore essential to examine the consequences of discrepancies between mutually supporting aspects of norms, regulations, models and resource dependencies as well as between different resource dependencies for organisational choices and their implications for success.

3.2.5 Relationship between Field Dynamics and Structure and Organisation Level Outcomes

A further question concerns the link between industry structure, social interdependencies, and organisation level outcomes. A number of questions become relevant to clarify this relationship, including the following. What does the structure of a given industry imply in terms of resource dependencies and vice versa? Are dominant players those firms, which most successfully balance and manage different stakeholder demands as well as shape business norms and models, thus the very terms of success and effectiveness in a given sector? To what extent can peripheral players do the same? How would the demands of different social stakeholder groups influence the distribution and partitioning of resources among industry participants? In what ways and to what extent can new entries into a sector change the field dynamics and the prevailing structure of an industry and the terms of competition? How could that affect isomorphic behaviour among the players?

3.2.6 The Role of Power Differentials and Industry Stratification in an Institutional Framework

Differentials in organisation size, market share, network centrality, and similar characteristics of organisations might greatly contribute to power differentials. The historic role and influence, ties to dominant forms of business, bureaucratic, and political elite may all affect the formation, persistence, and domination of certain actors in an (inter-)organisational field. However, once such a power differential is embedded in a system, or field, it is possible to speak of institutionalised power structures that may not easily erode or disappear. The relationship of these factors with the institutional context and specific business system dimensions needs clarification. This calls an analysis which investigates the extent different organisations in a given industry differ in reflecting the business system features they are embedded in and in the extent they are affected by these. Two important questions emerge that need an answer in that respect. First, what might be the extent of, and reasons for, loose or tight coupling of system dimensions in a given industry? Secondly, what would be its implications for firm behaviour and enterprise strategy? At the business system level, the NBS literature emphasises that it seeks to describe and explain the 'dominant form' of organisation in a given society. It is implied that this is where the business system features are most distinct and easily identifiable. Whilst typifying varying systems of business and economic co-ordination in that manner, no explicit attention is paid to power structures and dominance patterns, which are quite important for system reproduction. Another related shortcoming is the neglect of less central actors in the system. This closely ties in with the previous issue, that is, differences between loosely and tightly coupled parts of the system and its various implications. The investigation of this particular issue requires an analysis that focuses on a single industry and systematically investigates how power differentials arise between organisations as well as its implications for strategic behaviour.

A useful way of capturing power differentials with due regard to social interdependencies is a distinction between core and peripheral actors or organisations. This tool should be sensitive to institutional parameters, because the answer to the question 'which particular actors or organisations can be considered as part of the core' would depend on the interdependencies across relevant societal dimensions and types of important resources and social stakeholders. Inter-dependencies with other powerful social actors and groups would be much more balanced, symmetrical, and mutual in the core, and interests highly intertwined. In a way, this is where the inter-penetration of different social / societal spheres would be most visible, focussed, accentuated, and durable. In other words, this would be the central locus of inter-dependent or inter-penetrated system dimensions where actor-system dialectics, the role of agency, and the structuration processes are clearest and most pronounced. Peripheral actors, on the other hand, would be in a much more asymmetrical dependence relationship. As such, these actors would be much more dependent on other social actors and in a less stable and more vulnerable position. Paradoxically, because of this, the latter might seek to detach themselves from central societal interdependencies and to some extent can manage doing so. The consequences of such loose-coupling are, however, far from clear-cut; they might be advantageous in certain respects, but also quite disadvantageous in others.

Concerning the four contrasting conceptualisations of the Societal Effects / National Business System and the New Institutionalism perspectives, which were outlined in Chapter 2, such a stratification of economic actors brings the following issues forward.

First, the issue of power, latitude for choice, and the dialectics of reciprocal actor-system relations as opposed to passive conformity to institutional prescriptions: The distinction of core and periphery presupposes a distinction in the degree of power and interdependency. However, it does not assume that the possession of higher power necessarily implies more latitude for choice, because being in the core also means that deep-seated interdependencies must have been developed with the social system, limiting choice. But the core actors are also considered to be the more powerful, through their capacity to determine the institutional parameters of a particular system and to resist, absorb or import any outside influence. The association of higher interdependence within the system, with a higher amount of power, might sound puzzling or paradoxical. But this dual characteristic associated with the core should provide the right tools for explaining continuity and change in institutional business templates, especially if change in the institutional environment gives rise to a relatively more discretionary or high choice environment.

Second, the issue of institutional isomorphism versus interdependencies between societal dimensions and the associated systemic coherence: The premise that coercive, normative and mimetic processes would lead to isomorphism leads the theory of institutional isomorphism to the prediction that all actors/organisations in a given field or sector are driven to converge at a cognitively legitimate template, with the periphery emulating the core in important respects. The theory of dialectic interdependencies, however, would predict that depending on the nature of interdependencies and the associated variation in the coherence or tight-coupling of the social/societal system, we can expect increasing variety in organisational templates. Empirical investigation and verification is needed.

Third, the issue of international convergence versus inter-societal diversity: This is a close corollary of the previous issue, and it is the same as resource partitioning between societies. The very interdependencies leading certain organisations to evolve into a core might also deter these from replicating internationally diffusing practices. The periphery might by the same token be more open and susceptible to such influences and therefore exhibit a closer resemblance to a given international or outside template.

Fourth, perhaps most important issue, that of continuity versus change: Because of the interdependencies that core organisations develop with societal institutions, these would also be more likely to exhibit stronger inertia and resistance to international influences. The opposite holds true for the periphery, which might be more open or susceptible to change and converge towards an international business template or sector recipe. The very interdependencies that would hold the core from converging to such a template might imply stronger continuity, and depending on the nature of the existing interdependencies these might also exhibit less isomorphic behaviour. The distinction between core and periphery might even become more pronounced with isomorphism across the two groups decreasing further.

3.3 Research Design

Taking the general theoretical framework as a point of departure, we have designed a two-stage empirical study, in order to address the puzzles which we derived therefrom as our main research topics. Applying historical analysis, we have studied, respectively, an entire industry and selected organisations, in the context of varying institutional-economic contexts. In this section, we will present our research design, introducing briefly the specific research model(s) we applied in each stage and the explored relationships. The employed constructs will be further explained in the relevant sections in Part II and Part III, where each of these studies and their results will be presented.

3.3.1 The Macro Study: Objectives and Research Model

The main objective of the industry-level study is to explore and understand the (interactive) effects OF

A) The general institutional and economic environment [12]

B) Organisational inter-dependencies and power

C) Change in actor constellations

ON

a) Inertia and change in business templates (i.e. business domains, strategies, and modes of operation)

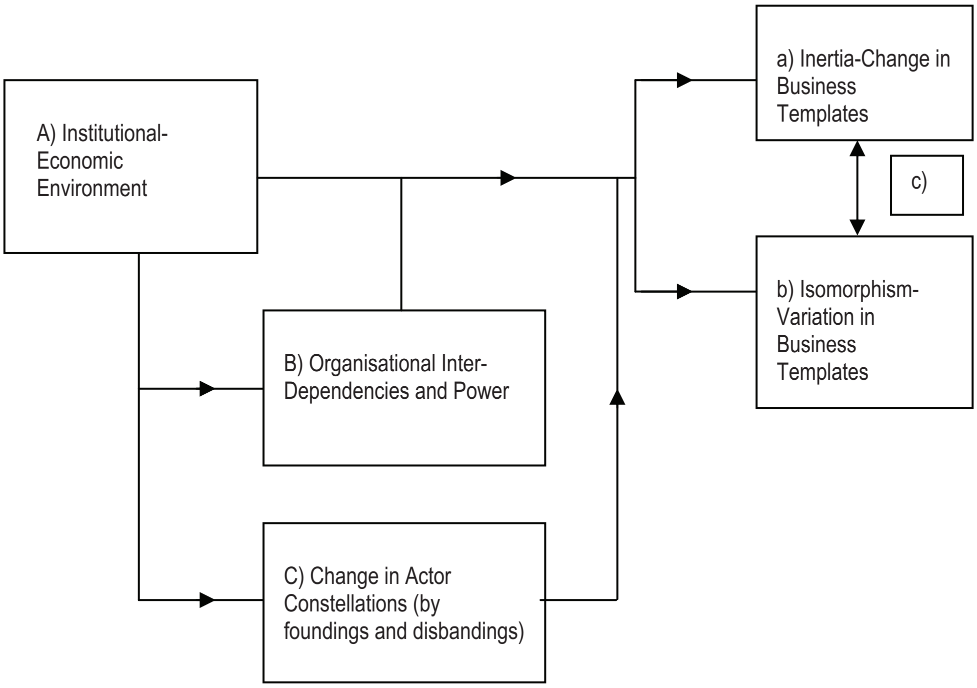
b) Isomorphism and variation in business templates (i.e. business domains, strategies, and modes of operation)

c) The interrelationship between organisational inertia-change and isomorphism-variation.

These constructs and to be investigated relationships are depicted in Figure 3.3.

[12] With potentially different implications for organisational effectiveness, change pressures, room for strategic choice, and isomorphic pressures.

Figure 3.3 RESEARCH MODEL: MACRO STUDY[13]



3.3.2 The Micro Study: Objectives and Research Model

In order to account for variance unexplained with the macro-analysis, the micro-level analysis will also incorporate the role of choice and action. In addition to establishing the implications of (A), (B), and (C) for (a), (b), and (c) above, we will also explore the more precise process and outcomes of paths of development of different enterprises representing different power groups. By exploring in greater detail, the actions and rationale of different economic actors in their more specific enacted environments, we will establish more accurately how and why isomorphic tendencies and partitioning as well as inertia and business practice change can emerge. Through a more detailed analysis of social and historic embeddedness of actors and their action horizons and the accompanying structuration processes, we should thus be able to contribute to debates revolving around "determinism-choice".

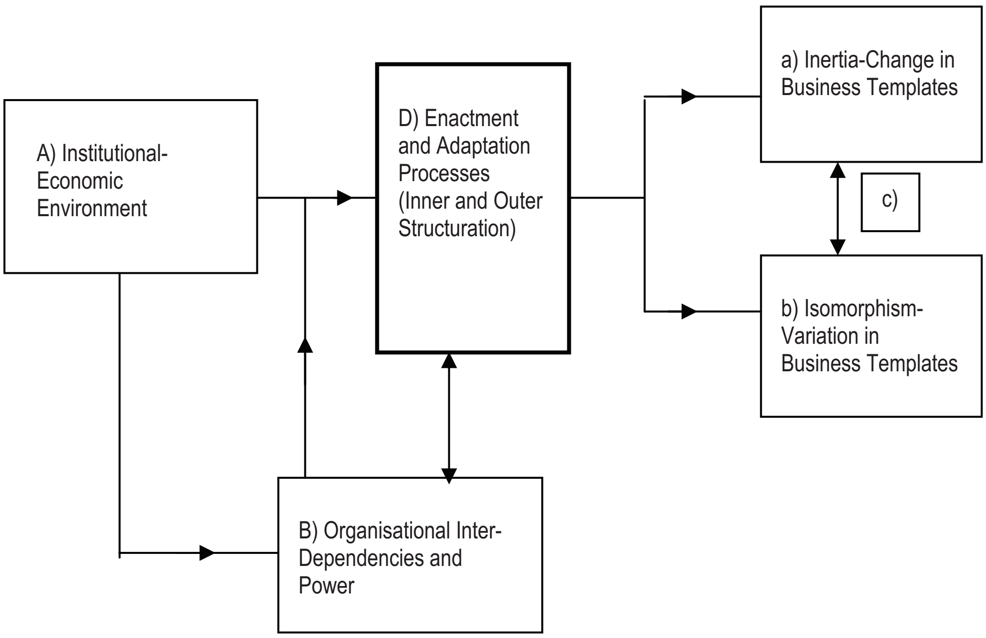
As shown in Figure 3.4 below, the model entails a major additional analytical component (D), which was omitted in the macro research model.

[13] The first-stage macro study is linked with (but does not test) the following notions and relations depicted in the general analytical framework (Figure 3.1): (d-f-j), (g-h), n, o, p, q, r, t, x. Parentheses indicate that these components were considered as a whole.

D) Enactment and adaptation processes (i.e. inner and outer structuration)

This incorporates aspects of enactment and adaptation, taking into account the interaction between actors' rationality, decisions, and choices and the enacted context of those decisions and actions. By exploring the intervening role of (D) and its mutual relationship with inter-dependencies and power (B), we will thus be better able to explain the effects of (A) and (B).

Figure 3.4 RESEARCH MODEL: MICRO STUDY[14]



The incorporation of enactment and adaptation processes (inner- and outer-structuration) in our micro-study model may imply that we adopt a "co-evolutionary perspective" (*Organisation Science*, 1999; *Organisation Studies*, 2001), which claims to be a unifying approach vis-a-vis the adaptation-selection debate.[15] According to Lewin and Volberda

[14] The second-stage micro study is linked with (but not test) the following notions and relations depicted in the general analytical framework (Figure 3.1): a, b, c, d, e, f, g, h, j, k, l, m, s, u, v, (j-w), x. Parentheses indicate that these components were considered as a whole.

[15] We have not included the "co-evolutionary perspective" in our discussion of the main theoretical perspectives in Chapter 2, becasue in our view, it could not be treated as a distinct perspective with an entirely distinct conceptual and explanatory stance and entirely distinct implications for organisational inertia-change and isomorphism-variation as it was the case with the four main perspectives we have disssued. Together, these four perspectives were instrumental for laying the

(1999, pp.527-528), the main requirements for co-evolutionary research are: Studying organisational adaptations over a long period of time; within a historical context of the firm and its environment; considering multidirectional cusalities; incorporating mutual, simultaneous, lagged and nested effects; considering path dependence, which enables and restricts adaptation; incorporating changes occuring at the level of different institutional systems; accommodating economic, social, and political macrovariables that may change over time and influence the deep structure within which micro- and macro-evolution operate. Clearly, our research approach can claim to accommodate most of these requirements.

Furthermore, by examining structuration processes in the context of different institutional-economic environments, our research specifically addresses "the role of institutional macro effects and different degrees of institutionalisation in co-evolution of firms and industries", which Rodrigues and Child (2003) consider an important contribution to the co-evolutionary perspective due to "the relevance of different degrees of institutionalisation to opportunities for exercising strategic choice at the level of the firm" (p.2159). It should be noted that our research does not examine the political processes through which firms may *directly influence* the general socio-economic and regulatory frameworks (in the main, these are treated as exogeneous factors), but how different types of firms interact with and influence other important stakeholders and constituents of their environment such as major resource providers, customers, and competitors within different macro-institutional frameworks.

But most importantly, with this study we extensively examine and shed light on two understudied aspects of co-evolution, which are first, the links between internal and external structuration processes of firms (thus integrating micro co-evolution and macro co-evolution), and second, firm-level comparisons of micro and macro co-evolutionary trajectories and their implications for strategic differentiation and isomorphic behaviour of firms.

3.3.3 The Overall Study

These research objectives were transformed into an empirical research involving an inter-organisational field that was subject to wide-ranging pressures for change and adjustment during the last two decades of the 20th century: the Turkish commercial banking sector. In Chapter 4, we will describe Turkish business system and the banking sector, going over the major developments before and during that time. We will thus provide information on the institutional-economic context (A) and the changes therein as well as on groups of actors representing different inter-dependence and power groups (B) and changes in these actor constellations (C). The remaining chapters in Part II (Chapters 5 and 6) will provide information on the remaining constructs and data pertaining to the macro study and present its results, respectively. Part III (Chapters 7 to 10) will deal with the second-stage micro study. Finally, in Part IV (Chapter 11), we will bring these two studies together, and present and discuss our overall conclusions.

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essential analytical backdrop and providing the basic conceptions to draw on in our dealing with the major research questions, whereby a co-evolutionary analytical approach becomes relevant for analysis and interpretation.

Taken as a whole, this study can be considered a case study of the Turkish commercial banking industry, entailing two embedded cases dealing with two organisations. In other words, overall speaking, it is possible to treat the entire study as a "single-case design" with "embedded" units of analysis (Yin, 1989), although the second stage micro study itself could also be considered as a "multiple-case design" (Yin, 1989), consisting of two "holistic" cases and "cross-case comparisons". The selection of the Turkish commercial banking industry and the two banks involved "theoretical sampling" and "theoretical replication criteria" (Eisenhardt, 1989; Yin, 1989), leading to the selection of theoretically useful cases. Detailed information on considerations in these regards will be provided, respectively, in Chapter 4 (theoretical relevance of the Turkish banking industry) and Chapter 7 (theoretical relevance of the two case organisations).

As a whole, the study is not so much concerned with testing hypotheses as with "building (midrange) theories" (Eisenhardt, 1988, 1989). Eisenhardt (1989) differentiates "the case study approach for midrange theorising", which she handles as a specific case study approach for inducing theory, from theory (hypothesis) testing case studies as well as from "grounded theory building" (Glaser and Strauss, 1967). Unlike grounded theory building, this particular approach assigns a greater role to a priori specification of constructs and to existing literature, which means the departure point is not data collection. However, unlike in theory testing case studies, no specific hypotheses are formulated beforehand, maintaining theoretical flexibility. Yet, one controls case study design and puts some limit to theoretical flexibility by controlling theoretically important criteria and principles for case selection. In Chapter 4 and Chapter 7, we explain our case selection principles and the control of theoretically important criteria. Another similarity between theory (hypothesis) testing and this particular type of research involves, according to Eisenhardt (1989: 543-544), "construct measurement and verification of relationships, but these are more judgmental in theory-building research". As an analytical strategy, we relied in different degrees on each of the three complementary analytical processes, i.e. "pattern matching", "explanation building", and "time-series analysis" (Yin, 1989) for exploring, judging, and verifying relationships.[16] We hope that, through multiple data collection methods and triangulation of evidence and by combining qualitative and quantitative data, we were able to strengthen these processes.

[16] The second-stage micro study depended on each of these three analytical approaches to different degrees, whereas the first-stage macro study involved more "pattern matching" and "time-series analysis" than "explanation building".

PART – II

FIRST-STAGE MACRO STUDY

Chapter 4

Institutional-Economic Environment, Actor Constellations, and Power Structures

In this chapter, a historic overview of the distinct features of the Turkish business and financial system will be provided, including a description of economic liberalisation and deregulation process that took shape during the 1980s and 1990s and its implications for the institutional-economic context of banking.

We will thus describe the Turkish business and banking system from a historic-institutional perspective and present a general outline of major institutional and structural continuities and changes that took place in that system. The regulatory institutions and rules of conduct, international involvement and integration, different actors and actor constellations and the changes therein, and organisational inter-dependencies and power structures will all be discussed. This will serve to clarify what we mean with *(time-specific) institutional-economic environment*, with *(changes in) actor constellations*, and with *organisational inter-dependencies and power*, three major concepts included in our empirical model, which was introduced in Chapter 3.

4.1 Turkish Business System, Economic Reforms, and the Commercial Banking Sector in Historical Perspective

4.1.1 State-Dependent Business System and the Inter-penetration of Banks, Business Groups and the State

Since the formation of the Republic in 1923, the Turkish State had assumed a central and active role in the national economy. The state-led policy of industrialisation was closely supported with a credit-based financial system (Zysman, 1983), which is put forth as one of the major characteristics of state-coordinated and state-dependent business systems (Whitley, 1994, 1996). In such contexts the state typically co-ordinates economic development by its control over the flow of credit through the banking system. In that respect, the Turkish State has had a wide-ranging role. The organisation of financial markets in Turkey has been characterised by extremely tight networks linking the state to the banking sector and the banking sector to industry. In Öncü and Gökçe's words (1992, pp.106),

> "(t)he strong presence of the state in the banking sector and the high degree of inter-penetration between finance and industry are a historical legacy of the early decades of the Republic. Throughout the 1930s and 1940s, policies of industrialisation through state initiative entailed the creation of a series of state-owned banks to provide credit and facilitate investments in specialised sectors of the economy -agriculture, housing, mining, textiles, maritime activities, and the like. In the pre-war decades, these banks mobilised resources for a wide array of public sector infrastructural and industrial investments. Later, in the post-1950 period, when private enterprise prospered under protectionist state policies,

which encouraged import substitution, the state banks played a key role in channelling foreign aid and credit as well as domestic public credit to private industry. Interlocking ownership of banks and corporations gained further momentum as the nascent private conglomerates began to move into financial markets towards the end of the 1950s. Thus, during the inflationary expansion of the economy in the 1960s and 1970s, bank ownership became the sine qua non of comparative advantage in financial markets, with a series of private commercial deposit banks controlled by the so-called 'Groups'."

Öncu and Gökçe go on describing the logic behind this development as follows (pp.110-111):

> "The depiction of Turkish financial system in the pre-1980 period as 'tightly regulated' refers to the existence of an elaborate edifice of bureaucratic regulations built up to control the price and allocation of foreign currency and credits. Both the price of foreign currency and the price of credits were administratively defined at below market rates, and bureaucratically allocated to 'policy and/or political priorities'. The dynamics of the banking sector in the 1950-80 period were shaped by the combination of these two sets of political-cum-bureaucratic controls over the price and allocation of foreign currency and credits, resulting in what is frequently described as 'riskless banking' by the bank executives themselves. To capture deposit at administratively defined low interest rates, an elaborate network of branch offices developed, with an estimated average number of 250 new branch offices opened annually between 1970 and 1981. 'Cheap loans', or state subsidised credit at preferential interest rates, were in turn channelled into the Group investments; the interlocking ownership of financial institutions and corporations was accompanied by less than arm's length lending and underwriting practices."

This points at another significant feature of Turkish business system, i.e. the central role of large, family-owned business groups, the so-called holding companies, in the economy. As in some other state-dependent business systems (see for example Whitley, 1996, 1999) for a discussion of the role *chaebols* in the Korean economy), these diversified and centralised groups (Buğra and Üsdiken, 1995; Gökşen and Üsdiken, 2001) have played an important role in the national economy along with state-owned enterprises since 1930s. According to Buğra (1992, pp. 160; 1994),

> "(i)n the 1930s, the government opted for an industrial strategy where big business firms would function in continuous dialogue and collaboration with government authorities, in an environment where both their rights and responsibilities were clearly defined by the requirements of economic development. In this setting, a high industrial concentration would be helpful to facilitate effective state control over the activities of private firms."

4.1.2 Economic Liberalisation and Financial Deregulation

The state-dependent character of Turkish business system is thus a legacy of the industrialisation policies since the formation of the Republic in 1923. However, by the end of the turbulent 1970s, which ended with a military coup in 1980, liberal economic policies received stronger support. State-led industrialisation and import-substitution policies were accused of being insufficient for carrying forward an economy, which was literally "in need of three cents".[17] The general process of structural change, initiated at the very beginning of the 1980s, involves various efforts to institute the principles of a 'market' economy. The major goal was a break from an inwardly oriented, import-substitution economy and a rapid shift to an outward-oriented economy shaped by export-led growth strategies (Öniş, 1992, 1996).

As central financial intermediaries, historically and up to this day, in Turkey's credit-based financial system, commercial banks stood at the centre of the restructuring process. Most immediate and far-reaching changes included the relaxation of controls on interest and exchange rates and barriers to entry into the sector. The scope of financial markets enhanced steadily and the financial services sector entered a period of rapid growth. In 1984, Turkish residents were permitted to open foreign currency accounts in banks. Government securities auctions began in 1985 and the inter-bank market became operational in 1986. The Istanbul Stock Exchange was reopened in the same year. The capital account was opened up in 1989 and the Turkish Lira became a convertible currency. With that event, a strong link was established between foreign and domestic interest and exchange rates, further facilitating international trade in goods and financial services. As the result of these and other changes, between 1980 and 1999, the ratio of total bank assets and deposits to GNP went up from 29% and 13%, to 72% and 48%, respectively. At the same time, the securities portfolio of banks increased from 2% to 12% of Turkey's GNP, despite the simultaneous proliferation of non-bank financial intermediaries in these markets. By 1999, the market capitalisation of the Istanbul Stock Exchange had reached 62% of the country's GNP. Most importantly, elimination of barriers to imports and foreign direct investment in the wider economic context was paralleled by greater involvement of Turkish banks in international financial markets and an influx of foreign banks into the country. Greater integration with world financial markets followed the elimination of restrictions on international borrowing and lending and international trade in capital markets and it enhanced steadily through new correspondent bank relations and branch networks set up abroad.

A very important outcome of the relaxation of entry barriers into the banking system was the proliferation of banks, of both local and international origin. As should be clear from Table 4.1 and Figures 4.1and 4.2, throughout the period before 1980, the composition of the banking sector had been very stable. Major changes in actor constellations took place in the post-1980 era. Following the relaxation of entry barriers into the banking system, the number of commercial banks increased from 40 in 1979 to 53 in 1989 and reached 63 in 1999. This drastic increase was mainly the result of the influx of foreign banks during the 1980s and the proliferation of privately owned local banks in the 1990s. At the same

[17] Without sufficient resources left for investments necessary for sustaining industrial growth and development, the objective of "producing factories, which produce factories" and enhancing domestic manufacturing capabilities was calling for international investors. For the government in power then, these objectives called for a market economy, which would tie the country with the outside world and attract sufficient foreign investment to keep the wheels of industry turning. In short, the objective of the change agents in power in the early eighties was to switch from state-led industrialisation to industrialisation driven by multinational investment. It is not the purpose of this paper to elaborate on the apparent failure of Turkish state in bringing about the desired level of economic development. Although the Turkish state has not necessarily been as successful as Korea (Buğra and Üsdiken, 1995; see Evans (1995) for a discussion of 'predatory' and 'developmental' state concepts), its role has been pivotal for both industry and finance.

time, the number of state banks decreased steadily due to mergers and privatisation.[18] Of the 63 commercial banks operating in Turkey at the end of 1999, 34 were new banks, which were established in the period following 1980, and, 29 were old banks that date back to previous times. (See Appendix 1 for a complete list of banks at each stage, including time of foundation, ownership, and ownership changes.) The group of new banks accounted for more than one half of the bank population but for only 15% of its assets and 25% of its revenues, whilst 85% of assets and 75% of industry revenues belonged to old banks (Table 4.2). During the 1980-99 period, the total share of privately owned banks in industry's total assets, revenues, credits, profits, and personnel increased, while their share in total deposits and branches decreased. In 1999, these 40 banks accounted for 58% of assets, 56% of revenues, 57% of deposits, 65% of credits, 61% of branches, and 55% of personnel (Table 4.2).[19] The more than 50% decrease in the number of state banks together with the nearly 100% increase in the total number of foreign and privately owned local banks point out the eroding share of the state in the sector. However, that does not imply that state involvement has disappeared. Despite these developments, state banks accounted for 37% of total industry assets, 33% of revenues, 32 % of credits, 40% of deposits, 37% of total number of branches, and 43% of the people employed in the sector (Table 4.2).

Table 4.1

NUMBER OF COMMERCIAL BANKS				
	1969	1979	1989	1999
Total	43	40	53	63*
State-owned	11	12	8	4
Private	22	24	24	40*
Foreign	5	4	21	19
Regional	5	-	-	-
Old	43	40	29	29
New	N/A	N/A	24	34
Core	10	10	10	10
Peripheral	33	30	43	53

* 4, 8, and 16 of these in Savings Deposits Insurance Fund (SDIF) as of 1999, 2000, and 2001 respectively.

[18] The net increase in the number of private banks somewhat understates the number of bank foundings, because bank disbandings were also significant. Altogether, nine private banks disbanded in that period, four due to a financial crisis in the early 1980s and three in another crisis in 1994. Furthermore, of the 40 privately owned banks as of the end of 1999, 16 were transferred to the Savings Deposits Insurance Fund (SDIF) by 2001.

[19] The majority shares of most private banks are held business groups, of which, some are quite large and diversified, some with no major non-bank or non-financial business in their portfolio. Mostly, the latter represent entities growing around a bank. Only a few private banks have a different ownership structure. The largest private bank is for example one of these. Its shareholders include the employees' pension fund, the state, the oldest political party in the country, as well as the public. This bank actually operates like a business group itself, holding one of the largest industrial business portfolios in the nation.

Figure 4.1

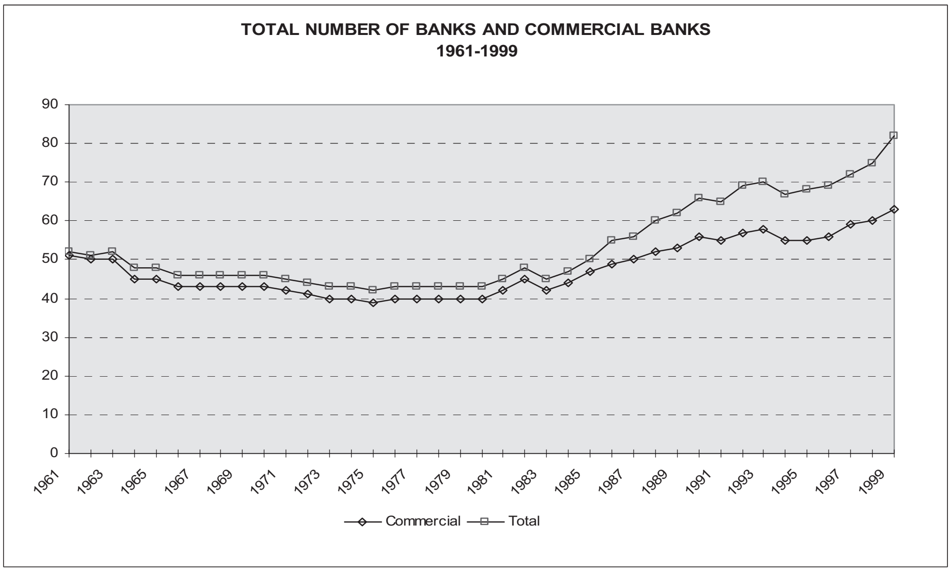
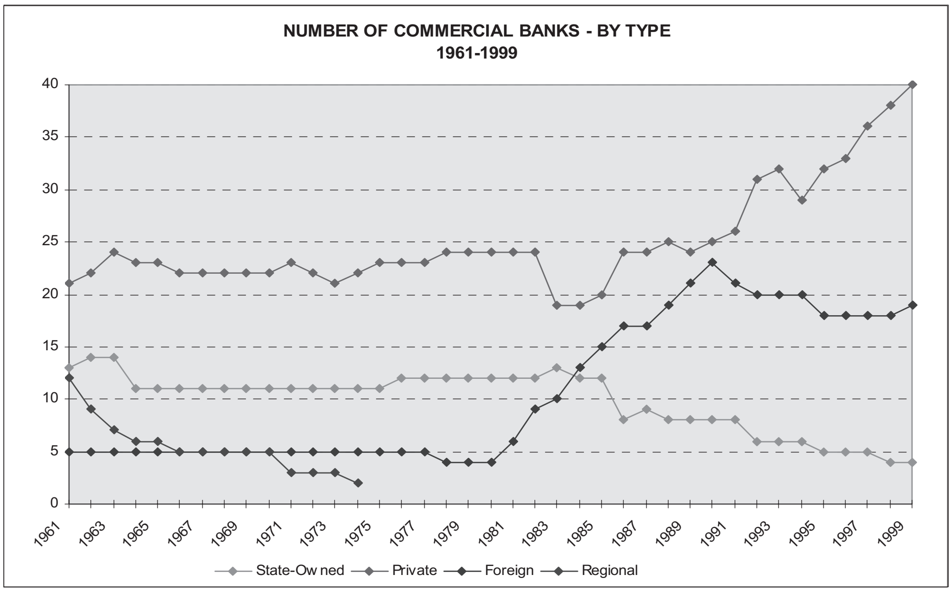


Figure 4.2*



* Private banks, including SDIF owned banks in 1999.

Table 4.2 (a)

INDUSTRY SHARES OF STATE-OWNED BANKS, PRIVATE BANKS AND FOREIGN BANKS (as % of industry totals)								
		Banks	Assets	Revenues	Deposits	Credits	Branch	Personnel
1969	State	25	62	62	40	61	46	50
	Private	63	35	34	56	35	51	47
	Foreign	12	3	4	4	4	3	3
1979	State	30	47	54	35	52	41	50
	Private	60	50	43	63	46	57	48
	Foreign	10	3	3	2	2	2	2
1989	State	15	50	47	47	54	45	53
	Private	45	47	49	50	42	53	45
	Foreign	40	3	4	3	4	2	2
1999	State	6	37	33	40	32	37	43
	Private	63	58	56	57	65	61	55
	Foreign	31	5	11	3	3	2	2

Table 4.2 (b)

INDUSTRY SHARES OF TOP 10 vs. OTHERS AND NEW BANKS vs. OLD BANKS (as % of industry totals)								
		Banks	Assets	Revenues	Deposits	Credits	Branch	Personnel
1969	Top 10	23	85	84	79	84	69	75
	Others	77	15	16	21	16	31	25
1979	Top 10	25	81	85	85	84	79	81
	Others	75	19	15	15	16	21	19
1989	Top 10	19	79	79	83	79	82	83
	Others	81	21	21	17	21	18	17
1999	Top 10	16	71	60	71	74	69	71
	Others	84	29	40	29	26	31	29
1989	New	45	3	3	2	4	1	1
	Old	55	97	97	98	96	99	99
1999	New	55	15	25	12	12	11	11
	Old	45	85	75	88	88	89	89

4.1.3 International Horizons, Actors, Influences

The influx of foreign banks into the sector was quick and took place for the most place over the 1980s (21 entries between 1980 and 1990). This is attributed to the "softening of restrictions on capital inflows from abroad and the introduction of an export encouragement scheme" (Öncü and Gökçe, 1992).[20] Despite this substantial influx, the

[20] If some of these foreign banks were later not acquired by local banks, their number would have been much higher than 19 at the end of 1999.

share of foreign banks remained (until the time of this study) at a rather small level in most traditional banking practices. In 1999, these accounted for only 5% of industry assets, for 3% of deposits, 3% of loans, 2% of branches and 2% of bank employees.[21] Their share in industry revenues however had reached a disproportionately higher level at 11% (Table 4.2). These facts suggest that foreign banks did not have a big impact on the sector in terms of taking a large share of the total market away from local banks. However, their disproportionately higher share in industry revenues implies that these banks served a more specialised market niche and became an effective provider of non-traditional, upscale products and services. Initially at least, their competitors were the newer generation of smaller private banks which, like their foreign counterparts, chose to specialise in corporate finance and international trade finance. According to Öncü and Gökçe (1992, p.113)

> "(t)he slowness of the over-branched, over-staffed traditional deposit banks in shifting into foreign currency markets provided scope for the emergence of a number of new and small independent trade- finance banks of domestic origin. These enterprising new mavericks, employing aggressive Madison Avenue techniques, were able to take advantage of the expanding foreign trade and funding markets, and established themselves in a banking sector long dominated by the Groups."

Notwithstanding the fact that foreign banks first started serving the particular niche of corporate and foreign trade finance, their competitive effect in the industry has been more extensive though less immediate and not very obvious. Denizer (2000) reports strong negative effects of foreign bank entry on overhead expenses and return on assets in the sector. He concludes that foreign bank entry had a strong competitive effect despite the fact that the scale of operations was small. Support for this conclusion is drawn from Levine (1996) (as cited in Denizer, 2000) who reports that foreign banks contributed to the quality of bank management in planning, credit evaluation and marketing, and in recruitment. The rapid growth of the sector throughout the eighties and nineties did in fact greatly contribute to banks' ability to attract, along with the multinational corporations, the best graduates of the most prestigious universities, including the graduates of engineering schools. Compared to most industrial companies, banks could offer highly competitive salaries as well as a highly attractive and promising professional career, which became increasingly popular among graduates of elite universities. In addition, they keenly competed with one another to lure Turkish bank professionals from abroad, in order to make rapid use of the skills developed in major international financial centres such as New York and London. Such observations suggest that foreign banks actually contributed to the 'creation' of their own competition as this newer generation of 'wholesale banks' benefited from their foreign competitors as both a source of qualified personnel and a template for new banking services and management practices. The banking school operated by the American Citibank for example has been quite influential in creating a new and internationally oriented generation of bank managers. Most new banking practice first introduced by these banks were often soon adopted by other, notably smaller, banks, with high employee turnover and inter-company management transfer greatly contributing to this process. Premium compensation and transfer payments rapidly became the norm for younger bank professionals with the more 'up-to-date' or sought-

[21] As of 1999, most of these banks were however quite small and operated with a single branch or a few, with the one exception of a very old and large bank of French origin that has been in operation in Turkey since 1863.

after education and professional qualifications. The increase in formal education of bank personnel was a sector-wide phenomenon and the downward shift in age structure was especially significant among smaller private banks (Üsdiken, 1992). Because change in top management teams has been an important factor contributing to change in bank strategies (Üsdiken and Özmucur, 1997), it can be inferred that these banks also had an important impact in that respect by being an important source of managerial transfer to other banks.

The internationalisation of the sector is of course not solely due to the influx of foreign banks, although this is an important process by itself. Greater integration with world financial markets followed the elimination of restrictions on international borrowing and lending and international trade in capital markets and it enhanced steadily through new correspondent bank relations and branch networks set up abroad. Tightening relations with the European Union following its formation of a customs union with Turkey in 1996 and the accompanying process of adjustment to European banking standards contributed to the increase in international exposure and involvement with markets abroad.

4.1.4 Institutionalised Power Structures

We have to admit that the socio-economic pattern, which emerged since 1980, is also described as "a complex pattern which a simple dichotomy such as retreating states and expanding societies fails to capture, and, which resulted in the further centralisation of government as well as a state-induced concentration of private power" (Öniş, 1992, 1996). A first glance at the deregulation and internationalisation experience of the Turkish banking sector indicates both a somewhat reduced share of the state in the sector and proliferation of foreign and privately owned local banks. However, there was yet no big erosion of state and business group inter-penetration with the sector as of 1999, which is a strong legacy of economic policies since the early 1920s. The share of a handful of large state-owned and private banks remained significantly large by various standards, with roughly the same few banks continuing to constitute a powerful core within the sector (see Figures 4.3 to 4.5 and Appendix 1). In 1979, the largest ten banks (5 state-owned, 5 privately owned) had accounted for 81% of sector's total assets and 80 to 85% of sector's total revenues, deposits, loans, and branches. There was no substantial change in that respect in the post-1980 period and the 1990s. Even though the total number of commercial banks increased to 63 in 1999, the total share of mainly the same ten banks stayed at a quite high level. By the end of 1999, these accounted for 71% of sector assets, branch, and personnel, 71% of deposits and 74% of credits (Table 4.2). The somewhat more significant decline in their share of total revenues (drop to 60%) implies that peripheral banks have nonetheless gained market share in higher value added niches of the market. However, this is not necessarily the most important performance indicator in banking, as higher revenues might go hand in hand with poor risk management and an eventual bankruptcy.

This significant and persistent concentration of economic power in the hands of a few banks points out to a persistent bifurcation between core and periphery. Market concentration is however not the only indicator of that dichotomy. In addition to significant difference in economic power, such a distinction also implies a difference in terms of social and political power, all of which are interdependent. Because these are the banks which, through their ownership of, participation in, or tight links to a number of large industrial enterprises, have a close control of a great portion of the national economy. At the same time, through their ownership structure, they also have access to a substantially greater amount of financial and economic resources. Furthermore, their sheer size implies significant political power, that is, voting and representing power within the industry association or, as especially in the case of the largest state banks, closer ties with and influence on the bureaucratic and political elite. Final but not least, these banks have, through their historically important role in the economy, greater visibility and social legitimacy in the eyes of the public. This intertwined locus of economic, political and social power stands out as a salient outcome of the industrialisation process and therefore has a strong, historic, institutionalised character. In these respects, it is possible to claim that inter-dependencies with the state and business groups are much more symmetrical and mutual in the core and interests highly intertwined. This is the central locus where the credit-based financial system ties with the dominant actors of an extremely centralised socio-economic system. Peripheral actors on the other hand are in a rather asymmetrical dependence relationship. These are more dependent on powerful actors such as the state, and therefore, have to act from a relatively less powerful position.

Figure 4.3

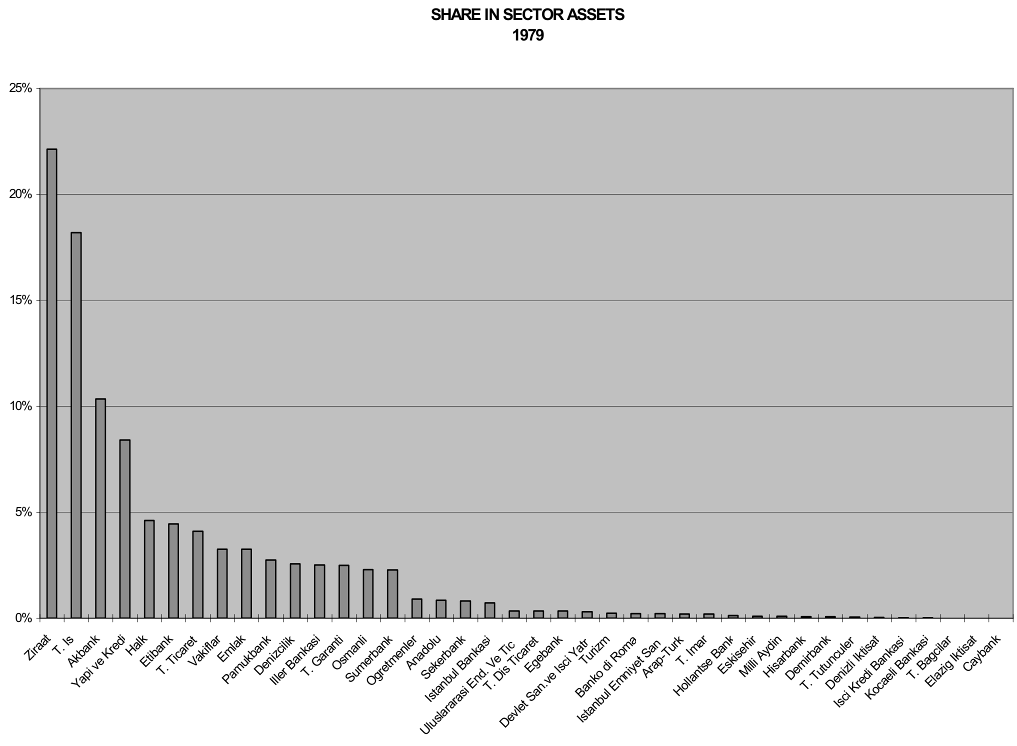


Figure 4.4

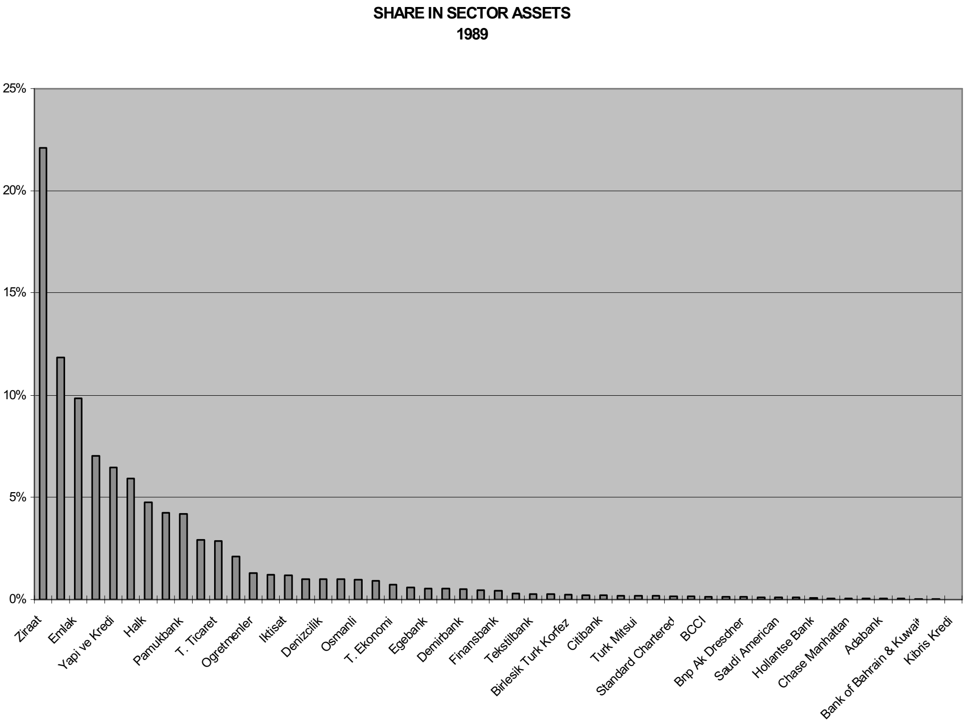
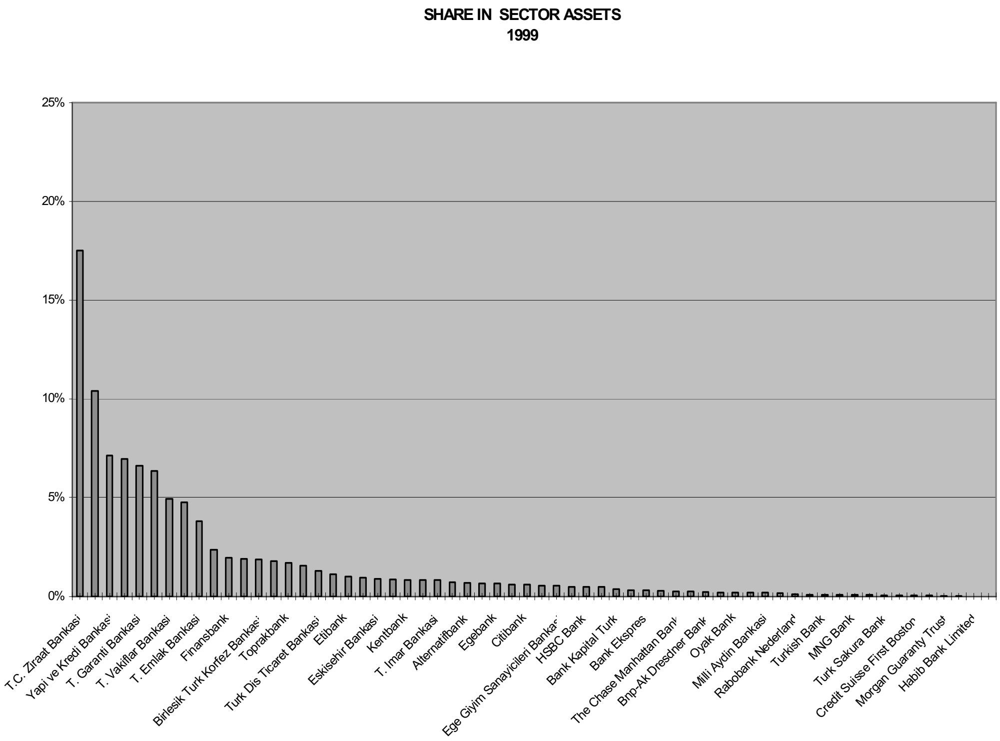


Figure 4.5



4.1.5 Performance Standards

There is ample literature on financial deregulation in different countries putting forward that there has been no significant inter-societal convergence in the financial sector, although financial liberalisation and deregulation have been part of the economic policies of many industrialised nations' in the last few decades (Canals, 1997; Knights and Tinker, 1997; Morgan and Knights, 1997). Morgan and Quack (2000) explain this path-dependent nature of change in bank strategies in Germany and the UK, in terms of the social construction of performance standards, which are a function of the risk control and risk sharing mechanisms that get institutionalised in different societies. Because perceptions and management of risk differs due to different 'institutionalised notions of risk' (Lane and Quack, 1999), bank strategies take up quite different paths of change. A similar pattern is evident in the French banking system that has undergone a quite radical liberalisation experience. There, the persisting "centralised policy of dirigisme" counteracted "tendencies towards standardising performance measures around financial criteria as supported and reinforced by international capital markets as well as the international regulatory regime" and gave rise to multiple performance criteria (Salomon, 1999).

A similar process took shape in Turkey. In addition to its direct presence in the sector, the state continued to exert significant influence in a number of ways. Whether associated with "domination" or "risk sharing" (Whitley, 1994, 1996), or with both, this took many different forms. These include continuous and sporadic changes in rules, regulations, controls, and restrictions, direct intervention in markets through a politically dependent Central Bank, and perhaps most importantly, through the insulation of actual policy-making and implementation within an inner circle of technocrats which included the chief executives of the largest state banks. The risk sharing behaviour has been especially pronounced in periods of crises, when the state prevented the likely collapse of the sector by expanding Central Bank's credit facilities and installing mechanisms such as complete state guarantee on all savings accounts. This risk sharing behaviour is not unique, as the state assumes such a function in most credit-based financial systems in the world. This is generally credited to the critical social function that a sound financial inter-mediation process serves, but can also be explained by closeness of ties between banks and the industry.

It should be borne in mind that throughout the liberalisation and deregulation efforts, new banking regulations were introduced for the prudential control of systemic risk in Turkish banks. Such prohibitive measures and built-in mechanisms for risk insurance entailed a set of formal quantitative restrictions. These include specific limits on the amount of credit that can be extended to a given customer and the number of branches that can be opened given the amount of capital, specific formal requirements for liquidity and capital adequacy, elaborate reporting procedures, requirements for inspection by independent auditors, and more strict professional qualification requirements for bank owners and managers. Such measures certainly had an effect on the system in terms of increasing financial discipline to some extent. Some Turkish banks indeed were quite successful in getting very good credit ratings from international rating agencies. It is however also true that these measures were not sufficient for maintaining a banking system on a large scale operating on the premise of prudential risk management and control, mainly due to major deficiencies in monitoring. Experience with financial rescue operations in previous crises and the introduction of full state guarantee on savings deposits have certainly contributed to a more unrestrained banking practice in general, although exceptions in that respect can be found.

In this context of limited concern for prudential risk management and control, private banks' strategies were by and large shaped as a function of shareholder expectations for market share and profitability. State-owned banks, on the other hand, continued serving other functions and tasks that are largely in conflict with market performance criteria. Transferring funds to various state enterprises at the order of political authorities remained as a legitimate practice, despite creating much public controversy. Financial losses generated by such transactions were recorded in a special accounting format called the "duty losses." Only in the aftermath of the most recent economic crisis in 2001, and with the additional pressure from the IMF, this long lasting practice for the first time faced a serious and strong initiative of change. Also in 2001, banks were for the first time seriously scrutinised and punished for excessive funds transfer to companies inside the same business group structure. This first serious intervention by bank supervisory authorities resulted in the transfer of 16 private banks to the Savings Deposits Insurance Fund (SDIF). All these are rather more recent events and developments, hinting at the possibility of some future change in the sector towards the widening of more conservative approaches in bank management and the strengthening of bank financial structures. The analysis of bank strategies during the first two decades of their experience in deregulated markets should however be understood in the context of protected markets with little emphasis on objectives other than those of the shareholders and other stakeholders such as the state.

4.2 Implications for Theoretical Considerations and the Empirical Model

We have shown that institutional stability and change, revolving around the theoretical themes sketched out in earlier chapters, can be observed in a case of accelerating 'liberalisation', internationalisation, and emergence of new business templates and actors. With this overview of the business and financial system and the transformation process in Turkey, it must have become clear that Turkish banks represent an interesting case for studying inertia-change and isomorphism-variation in differing institutional-economic contexts. As put forth in the foregoing sections, the system went through wide-ranging and quasi-revolutionary changes over the 1980s and 1990s. These included major reforms and transformation of economic and regulatory institutions, visible flows in actors and actor constellations, and a much stronger involvement and intimate inter-action with international markets, actors, and institutions. Operating in a country with a state-dependent business system that had to deal with the internal and external dynamics of 'liberalisation' and socio-economic restructuring over an extended period, banks faced differing parameters of organisational effectiveness, differing pressures for change, differing choice alternatives, and differing isomorphic pressures in different periods.

However, these wide-ranging changes were also accompanied by certain structural-institutional continuities, including the major actors and industry structure, bank-business relations, and the central role of the sate. Although liberalisation entailed the privatisation of several state banks and brought about a proliferation of new, private and foreign, banks, and despite some change in the competitive landscape of the sector, this still remained highly concentrated, dominated by roughly the same few banks. Such persisting bifurcation between a handful of core banks with a historically influential role and a proliferating group of peripheral banks raises the question of how these different actors having different resource and power bases operated during pre- and post-liberalisation and the implications of these for inertia-change and isomorphism-variation.

We have to account for and explain a number of tendencies, which at first appear conflicting. On the whole, structures of market share and power remained rather stable, despite liberalisation and international opening. There is thus apparent evidence of a prevailing core-periphery dichotomy. We have established that there was little movement of individual banks across these groups. Apparently, the very ties and inter-dependencies that would have developed over the years made a transformation into a different status rather difficult. This persisting bifurcation should help us test the extent of path-dependence as mediated by historically shaped, socio-politically generated interdependencies. This should be possible to the extent we can establish differences between these two groups.

The idea of exploring path-dependence in terms of these particular premises is guided by the conviction that, by their very definition, core organisations are those organisations that stand out in a system as the locus of social and economic power. Such power is both a result and source of historical social legitimacy. In that capacity, they stand for the essential characteristics of the system. Therefore, their behaviour becomes essential for establishing how and why a certain system evolves the way it does, and therefore also, for understanding and predicting evolutionary processes at higher levels of analysis such as societal or business systems.

The core-periphery distinction, which refers to a difference in what we call "institutional power", will not be however the only mechanism of accounting for differences in "organisational inter-dependencies and power"[22]. We will also take into account the role of "main affiliation (ownership / main stakeholder)" as an another factor with a potential role in this regard. Furthermore, "institutional age" will be included in our analysis in order to isolate the role of "change in actor constellations" [23].

We will provide further details on these and the other main constructs to be explained, i.e. "inertia-change" and "isomorphism-variation" in "business templates", in Chapter 5, where we will also describe the remaining aspects of the research methodology pertaining to the macro study, such as data collection, processing, and analysis.

[22] See Figure 3.3 in Chapter 3.
[23] See Figure 3.3 in Chapter 3.

Chapter 5

Macro Study: Research Methodology and Data

In this chapter, we will first explain the operationalisation of constructs and discuss their predicted role in our empirical research model. Next, we will provide information on data and its processing. This will be followed by information on population distribution. We will conclude this chapter with a description of our methods of analysis. In Chapter 6, we will present and interpret the results pertaining to the first-stage macro study.

5.1 Operationalising Constructs and Predicting their Role

5.1.1 Institutional-Economic Environment

In order to account for the role of "institutional-economic environment"[24] for isomorphism and variation, we will explore banking templates at two intervals (points in time) during the pre-liberalisation period and at two intervals (points in time) during the post-liberalisation period. This will also enable us to explore inertia and change in banking templates during three periods, i.e. "pre-liberalisation", "initial period of liberalisation" (i.e. the short-term experience), and "extended period of liberalisation" (i.e. the long-term experience). In both stages of the study, that is, in the macro as well as the micro study, we will employ this periodical distinction.

In a highly regulated and institutionalised context, overall speaking, business templates would be more similar and show little change in comparison with a context marked by institutional upheaval and flux, irrespective of relational groups (differences in inter-dependencies and power). With liberalisation, central notions such as choice and discretion come forward. The institutional changes that are associated with liberalisation, such as the elimination or reduction of restrictions on interest and exchange rates, the increase in the variety of markets, products, and services that banks can be engaged in, and so on, imply a certain increase in resource spaces and choice alternatives of economic actors. The post-liberalisation period gives us the opportunity to scrutinise in more detail the relationship between environmentally induced latitude for choice and variety in organisations' responses, by also taking into consideration the role of organisational inter-dependencies and power.

Thus, if we compare the pre-liberalisation period with the post-liberalisation period(s) disregarding the role (interaction effect) of organisational (inter-)dependence and power, we can expect to find higher overall change and higher overall variety in business templates in the post-liberalisation period(s). Whether there would also be differences between the initial and extended periods (i.e. the short- and longer term) in these two respects is an additional question in need of an answer. We may not find a clear difference in the short term, but see stronger effects in the longer term. It may however also be possible that such quasi-revolutionary changes have a stronger immediate effect, but give way to more stable and homogeneous practice in the longer term.

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[24] See Figure 3.3 in Chapter 3.

5.1.2 Organisational Inter-dependencies and Power, and Change in Actor Constellations

For an extensive analysis of the role of differences in organisational inter-dependencies and power as well as the role of changes in actor constellations in the macro study, we will distinguish between relational groups. These represent categories of banks related to one another in terms of main affiliation (ownership / main stakeholder group), institutional age (period of founding), institutional power (combination of size / market share and institutional age), and more specific combinations of these. Two of these variables, i.e. "main affiliation" and "institutional power" will thus be employed to operationalise the construct "organisational inter-dependency and power". One of these, i.e. "institutional age", will be used to isolate the role of "change in actor constellations" as well as serving as an indicator of institutional power. (In the more intensive micro study, our focus will be on banks with similar affiliation and age characteristics yet with clear differences in power in terms of size and market share.)

We will thus use the following relational group categories for each of the three variables mentioned above.

a) <u>Categories of main affiliation</u> (ownership / main stakeholder):

1. State-owned banks
2. Private banks
3. Foreign banks

b) <u>Categories of institutional power</u> (combination of size, market power, and institutional age):

1. Core banks (the largest ten banks)
2. Peripheral banks (the remaining banks).

c) <u>Categories of institutional age</u> (period of founding):

1. Old banks (banks founded in pre-liberalisation period)
2. New banks (banks founded in post-liberalisation period).

Main affiliation is thus measured through a distinction between three categories, i.e. state ownership, private-local ownership, and foreign ownership. Institutional age is measured through a categorical distinction between new and old organisations, with "new" denoting the organisations that were founded in the post-liberalisation period and "old" denoting those that were founded in the pre-liberalisation period. Institutional power reflects a combination (the conjoint role) of *size-market power-institutional age*[25] and is captured

[25] "Institutional age" is at the same time an indicator of "institutional power" and therefore of "organisational inter-dependency and power", because all "new firms" are at the same time "peripheral firms" and all "core firms" at the same time "old firms". The reverse is however not true. That is, some "peripheral firms" are "new firms" and some are "old firms", and some "old firms" are "core firms" and some are "peripheral firms". (For details of distribution of banks across

and measured through a differentiation between *core* organisations and *peripheral* organisations. Size is measured through asset size, personnel size, and branch network size. Market power is measured through actual market share in terms of total assets and total revenues. Because size and market power (and all their components) are actually closely related to one another (see correlation analysis in Chapter 6), when we refer to core, we will imply the ten largest organisations in terms of aspects of size and market share, each belonging to the group of old.

At this point, further clarification of criteria for the stratification of banks into two dichotomous sets of core and periphery might be useful. The distinction of the largest ten banks as representing the core serves the purpose of simplifying the analysis to some extent. However, as the graphs, which depict the market shares of all individual bank's assets (see Figures 4.3 to 4.5) make it evident, a distinction between the largest ten and the remaining banks is supported by the evident cut-off point at around the tenth largest bank. It is clearly the case that the banks on the left of that point are (have a market share that is) a lot bigger than the remaining smaller banks (the market shares of the remaining banks), although the difference gets somewhat smaller in later periods.

A few banks that are treated as part of the periphery according to the above-described distinction possess some of the features characterising the core as discussed in Chapter 4 (Section 4.1.4), in the sense of belonging to more prominent business groups with a substantial share and stake in industry. However, they are also of much smaller size and younger age. In that respect, the two groups were determined in the most conservative way that was possible. The set of banks representing the core possess all of the features that were previously discussed, whilst banks representing the periphery possess either none of these features, or, as in only a few cases, only one or two. In other words, in addition to size, all of the largest ten banks also possess all of the necessary qualities that characterise the core from an institutional and system-specific point of view as discussed in Chapter 4.

If we compare different relational groups, in terms of pre-liberalisation business templates, the changes in these, and the extent of intra-group similarities, we can expect to find little difference, especially in the latter two cases. In such a highly regulated and institutionalised context, relatively little difference between these groups may be observed, unless there exist resource dependence differences and resource partitioning between these groups despite relatively little variety in resource spaces. There may also be little difference between these groups in terms of business template changes and intra-group isomorphism-diversity. This would be mainly due to the overriding effect of regulations and institutionalised templates and little variety in resource spaces implying relatively little alternative and opportunity for strategic choice.

If we compare different relational groups, in terms of post-liberalisation business templates, the changes in these, and the extent of intra-group similarities, we can expect to find more pronounced differences, if the effect of resources and resource dependencies overrides isomorphic influences. There would be greater variety in resources or resource spaces and therefore also more alternative and opportunity for strategic choice. In that case, organisational (inter)-dependence relations would be the most important factor

relational groups, see Table 5.1 in this chapter.) It is therefore sensible to interpret "institutional age" as a main indicator of "change in actor constellations" and as a sub-indicator of "institutional power", as implied through "core banks" and "new banks".

shaping the need, ability, and willingness of firms to make use of different choice alternatives, to mobilise different types of resources, and to engage in path-breaking vs. path-dependent change. In other words, although liberalisation per se might lead to an overall increase in resource spaces and choice alternatives, this does not mean that more choice alternatives would automatically translate into an actual variety in choices made. This would depend on the actual interplay of resource dependencies and isomorphic pressures.

If resource partitioning were to prevail, then specific business templates should be observed in specific relational groups, along the core-periphery dimension, and possibly, others such as institutional age, and main affiliation. Thus, it may also be that business templates and relational grouping are less correlated, such that core banks (and old banks) adopt new business strategy and templates, emulating peripheral banks (and new banks), albeit with a possible lag. In such a scenario, structural inertia is more readily compatible with pervasive change in business templates.

If core banks differ in their response to choice opportunities, this may result in a relatively diverse set of templates within the core. We can expect core banks to be more inert and slower in making adjustments than peripheral banks. However, there may also be a variation within the group of core banks in terms of the nature of interdependencies with their stakeholders, which may lead to variation in these banks' timing and extent of responses. There exist for example obvious and distinct differences in the way state banks and group-owned banks operate. State intervention in the operation of state-owned banks is common practice and includes anything from investing, supporting, or overtaking a certain enterprise to providing direct financial support to the state. Differences can also arise between group-owned banks due to variation in their general business policy and economic resources available to associated business groups. Thus, at the core, we can at least expect a difference between private and state-owned groups, if not also within.

In contrast, as peripheral banks do not have the same extent of interdependence with the state or with large business groups, they might be more susceptible and open to change and adjust their banking templates more rapidly. However, at the same time, this could also make these banks more susceptible to mimetic and normative isomorphism. In other words, path-dependence would also imply that the group of banks in the core would exhibit a decreasing amount of within group isomorphism than banks in the periphery, because the effects of such inter-dependencies would likely vary from one bank to the other, whereas banks in the periphery would be more ready to adopt a new template because of weaker interdependencies and therefore exhibit a greater and increasing amount of "within group isomorphism". If these forces are very strong, in the periphery, neither may new banks be significantly different from old banks, nor local banks significantly different form foreign banks, even if there may be differences in terms of timing and extent of changes. Old and new, and foreign and local alike, banks in the periphery may exhibit stronger isomorphic change. On the other hand, if resources and resource dependency relations co-vary more strongly with relational groups, i.e. if different relational groups such as new vs. old and local vs. foreign ownership remain associated with different resources and resource dependencies, we may expect a combination of increasing change and increasing variety in business templates, even within the group of peripheral firms.

With the specifications of the main explanatory constructs pertaining to the first-stage macro study in place, we have to continue with the specifications of the two major constructs that we seek to explain, which are "inertia-change" and "isomorphism-variation" in "business templates".

5.1.3 Business (Banking) Templates

Our conceptualisation of business templates aligns itself with the synthesis of institutionalism and the strategy literature put forward by Greenwood and Hinings (1993). This hinges around the concept of "design archetype", that is, "the set of ideas, beliefs, and values (i.e. interpretive schemes) that shape prevailing conceptions of what an organisation should be doing (i.e. domain of operations), how it should be doing it (i.e. principles of organising), and how it should be judged (i.e. performance criteria), combined with structures and processes that serve to implement and reinforce those ideas" (Greenwood and Hinings, 1993). These three interrelated aspects should together reflect a coherent design archetype.

Domain of operations is a straightforward concept and is often conceptualised in terms of markets entered and products and services rendered. Principles of organising is a broad concept: Greenwood & Hinings (1993) refer above all to structural characteristics, decision making mechanisms, and human resource systems. However, these may also include any operational aspect of banking, such as customer relations, extent and nature of integration with other financial service providers, international partners, and inter-linked companies, extent of owner involvement, formal risk management procedures, and so on. Performance criteria is also an encompassing concept, including purely market or marketing related concepts such as cost-quality, price-volume, market penetration, efficiency, profitability, and so on, as well as non-market or social/political criteria.

In the first-stage macro study, the first of these three aspects, i.e. the domain of operations, forms the central axis guiding the investigation. In other words, inertia-change and isomorphism-variation in business templates are assessed on the basis of components of banks' domains of operation as reflected by funds generation, funds placement, and revenue composition indicators. Although lacking the micro-level details, this approach makes an extensive analysis possible, covering the entire set of banks in the sector and making over a long period of time. Secondly, specific business domains would normally be closely linked with specific modes of operation and organisational routines. The same applies to performance criteria guiding managers in their strategic decisions and domain choices. Without any prevailing performance criteria, it would not be possible to make the decisions on operational domains. Therefore, specific operational domains implicitly reflect specific performance criteria and vice versa.

In the extensive first-stage study, we will thus employ quantitative data indicating funding, funds placement, and revenue generation activities of banks, in order to capture and analyse their business templates. Table 5.1 provides a complete overview of aspects of banking template addressed in this study and the specific variables operationalising these. Please refer to Appendix 2 for a detailed explanation of the links between banking template dimensions and the specific variables used for operationalisation. (In the more intensive second-stage study we will employ a more detailed analysis of business templates, covering other details of organisation strategy, operational modes and principles of organising, and performance criteria in addition to funding, funds placement, and revenue composition.)

Table 5.1 (a) INDICATIONS OF QUANTITATIVE VARIABLES IN TERMS BANKING TEMPLATE DIMENSIONS

QUANTITATIVE VARIABLES	BANKING TEMPLATE DIMENSIONS				
	Commercial vs. Investment B.	Retail vs. Wholesale	International Involvement	Safety & reliability, service orientation	Concentration / Specialisation vs. Diversification / Generalism
I. FUNDS GENERATION ITEMS					
Deposits / Assets	Commercial	(Retail)	-	-	Specialisation
Savings Deposits / Deposits	-	Retail	-	-	(Retail or Wholesale Banking)
Commercial Deposits / Deposits	-	-	-	-	vs.
Public Deposits / Deposits	-	-	-	-	Generalism / Hybrid Strategy
Banks' Deposits / Deposits	-	Wholesale	-	-	
FX Deposits / Deposits	-	-	International	-	
Inter-Bank Funding / Assets	-	Wholesale	-	-	
Funds From Abroad / Assets	-	Wholesale	International	-	
Equity / T. Assets	-	-	-	(Safety)	
II. FUNDS PLACEMENT ITEMS					
Credits / Assets	Commercial	-	-	-	Specialisation (Commercial or
Securities / Assets	Investment	Wholesale	-	-	Investment Banking)
Inter-Bank Funds Placements / Assets	-	Wholesale	-	-	vs.
Equity Participations / Assets	Investment	-	-	-	Generalism / Universal Banking
III.. REVENUE ITEMS					
Interest Revenues from Credits / T. Revenues	Commercial	-	-	-	Specialisation (Commercial or
Income From Participations / T. Revenues	(Investment)	-	-	-	Investment Banking)
Interest Revenues from Securities / T. Revenues	Investment	Wholesale	-	-	vs.
Commissions & Fees / T. Revenues	-	-	-	Service & Safety	Generalism / Universal Banking
Foreign Exchange Revenues / T. Revenues	Commercial	-	International	-	
Capital Market Revenues / T. Revenues	Investment	Retail	-	-	

Table 5.1 (a) (continued)

V. SIZE ITEMS					
Market Share of Branches	-	Retail	-	-	-
Branch Network Size	-	Retail	-	-	-
Market Share of Personnel	-	Retail	-	-	-
Personnel Size	-	Retail	-	-	-
VII. OTHER ITEMS					
Revenues and Assets per Branch	-	(Wholesale)	-	Efficiency	-
Revenues and Assets per Employee	-	(Wholesale)	-	Efficiency	-

Table 5.1 (b)

DEFINITIONS OF BANKING TERMINOLOGY	
Commercial Banking	Banking involving operations and transactions in mainly money markets
Investment Banking	Banking involving operations and transactions in mainly capital markets
Universal Banking	Banking involving operations and transactions in both money and capital markets
Retail Banking	Banking predominantly based on smaller transactions with a large number of customers
Wholesale Banking	Banking predominantly based on large transactions with a smaller number of customers

Note: “Commercial” versus “investment” banking and “retail” versus “wholesale” banking distinctions normally represent two independent dimensions for describing a banking template. In other words, a bank operating in a “retail banking” format can have both “commercial” as well as “investment” banking activities as can a bank operating in a “wholesale banking” format.

Banking as a form of financial inter-mediation is basically the business of generating funds and placing these funds in revenue generating outlets by managing the risks that are inherent to this process. Increasingly, banks have also been engaging in off-balance sheet products, services, and managing the associated risks, but funds generation and placement constitute the major pillars of banking. Major means of funds generation are the collection of deposits, loans from other banks and financial institutions, local or international, and the paid capital or equity of the bank itself. Major means of placing these funds are the extension of credits to individuals, businesses, and other financial institutions, investment in securities, placements in the inter-bank market, and direct (equity) participation in industry. These constitute the major choice alternatives for banks and major aspects of strategy, having important consequences for the general business template. In addition to aspects of funds generation and placement, the specifics of a bank's revenue composition can also indicate strategic orientation and business template. Some types of revenues would naturally be dependent on and correlated with certain funds generation and placement activities (e.g. interest income from credits, interest income from securities, income from participations), but others (e.g. commission and fee income, foreign exchange revenues, capital market revenues) would likely be independent and not correlated.

Such funding and funds placement decisions and the specifics of revenue composition have important implications for the extent of specialisation and diversification as well as internationalisation. Diversified funds generation and placement activities mean involvement with different types of markets and different aspects of banking, and therefore, require a much greater set of skills, capabilities, and resources. Specialised approaches on the other hand may require a more limited amount of skills and resources. One of the important ways of diversification (generalism) and specialisation in banking bears on the retail - wholesale distinction. A bank can be specialised in retail banking or wholesale banking or it can try to do both of these simultaneously and be diversified (generalist) in that respect. Retail banking, i.e. involvement with a widespread but small sources of funds and outlets for placements calls for completely different competencies in comparison with wholesale banking, i.e. involvement with a small number of large customers and suppliers of large funds. Switching between two different kinds of specialist strategy and template such as wholesale and retail banking would not be straightforward. Switching from any of these specialist templates to a diversified (generalist) strategy and template and vice versa could be somewhat easier than moving from specialisation to another, but would still require the development of different resources and skills.

Another way of conceptualising diversification (generalism) and specialisation is distinguishing between commercial banking and investment banking templates. The first refers to activities and operations mainly involving money markets. The second refers to activities and operations in mainly capital markets. A bank can be specialised in commercial banking or in investment banking or it can do both simultaneously and be diversified (generalist) in that respect. This kind of diversification is usually denoted with universal banking concept. In addition to these two major dimensions, it would be useful to also check other aspects of business such as international involvement, involvement with service provision (as opposed to operating as merely a financial intermediary), and safety and reliability attitude, as these also would imply different skills and competencies.

Changes in any of these respects would normally require a change in resources and skills as well as the successful implementation of adjustments in operational routines.

Furthermore, such changes would also imply a change in associated performance criteria. By comparing banks' funds generation and placement activities and revenue compositions, it should therefore be possible to identify the extent of change and variation in major banking activities and templates. Furthermore, some of the above mentioned means of funds generation and funds placement, such as international and inter-bank borrowings, foreign exchange deposits, placements in securities and so on, became available to Turkish banks with the liberalisation during the 1980s. As such, these are particularly useful indicators of the extent of involvement in entirely new areas of banking.

5.2 Data and Data Processing

These considerations have led to the selection of the following variables to form the main dependent variables in the analyses:

(1) Credits as a means of funds placement
(2) Deposits as a means of funds generation
(3) Composition of deposits as a means of funds generation
(4) International borrowings as a means of funds generation
(5) Inter-bank borrowing and inter-bank lending as a means of funds generation and placement, respectively
(6) Investment in securities as a means of funds placement
(7) Equity participation (direct participation in industry) as a means of funds placement
(8) Composition of revenues (interest from credits, interest from securities, commission and fees, capital market revenues, foreign exchange revenues, and income from participations).

Funds generation and funds placement variables were standardised at the level of individual bank and measured as per cent share in each bank's total balance sheet (i.e. assets/liabilities). In the same manner, the composition of deposits measures different types of deposits as per cent of each bank's total deposits. Composition of revenues measures different types of revenues as per cent of each bank's total revenues.

For detailed explanations of variables, their relation with dimensions of banking template, and for abbreviations used, see Appendix 2.

Data used for tracing banking templates over a period of four decades between 1969 and 1999 were derived from the annual financial and operational information on banks. These were available in the archival publications (in printed format) of the Banks' Association of Turkey, which is the most accurate and reliable source of historic data in that area. Since these covered all commercial banks that were active in the sector in any given year during the period subject to study, we were able to research the entire population of concern as opposed to confining it to a sample.

We have restricted data analysis to four intervals, two in the pre-liberalisation period and at two in the post-liberalisation period. The first point in time (1969) one was selected to represent a point reasonably distant in time from the onset of institutional changes. The second point (1979) was just before the institutional changes started to affect the sector. The third one (1989) had to follow after a reasonably long (interim) period. The fourth and final point (1999) represented the most recent date with respect to the execution of this research. Using data pertaining to the years 1969, 1979, 1989, and 1999 served this purpose well.

This enabled us to explore inertia and change in banking templates during three periods, i.e. "pre-liberalisation", "initial period of liberalisation" (i.e. the short-term experience), and "extended period of liberalisation" (i.e. the long-term experience).

By limiting the longitudinal dimension of the study to a more manageable size, we became able to capture significant changes without being too overwhelmed by abundance of data. In this way, the abundance of raw data that had to be processed in order to generate usable/analysable data, which was also accurate and reliable, did not cause too big an obstacle. Although the number of subjects (number of banks at each point in time) and variables were manageable, the plenty of items making up the annual financial statements was forming an important challenge. Firstly, these had to be transferred form printed to electronic format and further processed (aggregated and disaggregated) in order to derive a (composite) value for each variable that was included in the study. Secondly, and more importantly, during the 40-year period, the Banks' Association had used in its publications four different formats, pertaining to the periods 1961-1980, 1981-1985, 1986-1991, and 1992-1999, containing respectively an increasing amount of detail. These had to be transformed into one common format that could be used in such a longitudinal study, without compromising accuracy and reliability. For this purpose, additional collaboration and face-to-face information exchange took place between the researcher and the data processing department of the Banks' Association. This involved a one by one discussion of all items contained in all four different report formats. Upon agreeing on the procedures to be followed for converting these into one common format, the researcher could transfer printed data into electronic format, using the agreed upon single format.

The selection of the above-mentioned intervals was justified because, firstly, these correspond well to the timing or historical trajectory of essential changes in the institutional-economic environment. Secondly, they are also sufficiently apart from each other so that we can capture a time-based trend. It is often repeated that "the general strategy of 'liberalisation of financial markets' has been applied into a rapid succession of policy moves, fraught with inconsistencies, delays, periodic readjustments and unexpected developments in the sequencing and application of actual policy measures" (Öncu & Gökçe, 1992), which is indicative of a case of institutional flux in the post-liberalisation period as opposed distinct sub-periods. It is also clear that the first of these intervals, i.e. the initial period of liberalisation, represents a major break with the past. This is the period when most of the more substantial and radical changes were introduced, with 1980 representing an important break point. As mentioned before, these include the freeing of interest and exchange rates, the proliferation of foreign and smaller local banks, the closure of certain state-owned banks, the reopening of the stock exchange and the revitalisation of the capital markets, the introduction of currency convertibility and so on. The second interval, i.e. the extended period of liberalisation, which is partly a result of a convenient division of the entire post-liberalisation period into two equal parts, can also be considered as an extension of the first. Yet, by incorporating relatively fewer and less radical changes, it therefore also represents relatively greater opportunities for banks to get adjusted to the changes that took place in the previous period. By accounting for both short and long-term experience of banks, we were thus able to better accommodate the impact of any learning process that could emerge over time and could be more confident in conclusions about continuity and change.

5.3 Distribution of Bank Population by Relational Groups in Different Periods

As shown in Table 5.2 below, the population of firms consisted of respectively 43, 40, 53, and 63 banks at each time interval that was studied. Thus, the total number of bank-year combinations was 199. However, only 28 banks (out of each 43, 40, 53, and 63) were part of the population at all times, and therefore, only 112 (28x4) bank-year combinations involved exactly the same subjects. As can be seen in Appendix 1, the population dynamics reflects various changes in actor constellations arising from bank disbandings, foundings, mergers, as well as changes in ownership. Altogether, 83 different banks have at some point in time been part of the population, but, as stated, only 28 of these were present during the whole period.

As can be also seen from Table 5.2 below, the breakdown of the population with respect to different relational categories also reflects that the size of such categorical groups also differed significantly. We had to take into account such differences when interpreting statistics of within-group dispersion. Scatter-plots were also a powerful tool for interpretation given the limitations of statistics.

Table 5.2

BREAKDOWN OF BANKS BY RELATIONAL GROUPS				
	1969	1979	1989	1999
Total Number of Banks	43	40	53	63
State-owned Private Local Foreign Regional	11 (7C, 4Pe) 22 (3C, 19Pe) 5 (5Pe) 5 (5Pe)	12 (6C, 6Pe) 24 (4C, 20Pe) 4 (4Pe) -	8 (5C, 3P) 24 (5C, 19Pe) 21 (21Pe) -	4 (4C) 40 (6C, 34Pe) 19 (19Pe) -
Old New	43 (11S, 22PL, 5F, 5R) N/A	40 (12S, 24PL, 4F) N/A	29 (8S, 17PL, 4F) 24 (7PL, 17F)	29 (4S, 21PL, 4F) 34 (15PL, 19F)
Core Peripheral	10 (7S, 3PL) 33 (4S, 19PL, 5F, 5R)	10 (6S, 4PL) 30 (6S, 20PL, 4F)	10 (5S, 5PL) 43 (3S, 19PL, 21F)	10 (4S, 6PL) 52 (34PL, 19F)
Banks Present at All Times	28	28	28	28
State-owned Private Local Foreign	7 18 3	7 18 3	7 18 3	7 18 3
Core Periphery	9 19	10 18	10 18	10 18

S = State-owned, PL = Private Local, F = Foreign, R = Regional, C = Core, Pe = Peripheral

5.4 Methods and Procedures of Analysis

In order to understand the relationship of banking templates, along with the extent of inertia-change and isomorphism-variation in these, with institutional-economic context and relational groups, we had to establish how much the selected dependent variables vary between and within different time intervals, firm categories, and combinations of these.

As such, the analysis had to entail a combination of cross-sectional and longitudinal comparisons. It had to enable us to demonstrate, first the amount and scope of stability and change associated with each relational group in each of the three periods, second, the amount and scope of isomorphism and variation present within each relational group and across groups at four different time intervals, and third, whether there was any significant over time change in the latter (i.e. in isomorphism-variation).

Analyses included bivariate correlations and ANOVA, descriptive statistics, and scatter plots. A first assessment of relationships between dependent variables and bank categories and time intervals was generated on the basis of coefficients of association obtained through ANOVA (see Appendix 3). The extent of association or interdependence among dependent variables was explored through bivariate correlations. The latter was useful for determining whether applying a further data reduction technique such as factor analysis would also be reasonable and useful or not. Descriptive statistics (see Appendix 3) of each variable (mean, variance, mean-adjusted variance, and standard deviation) were generated for each relational group, and for sub-groups representing more specific combinations, at each time interval. Finally, two-dimensional scatter plots (see Appendix 4) of the variables compared each bank's location against others at each of the four time intervals. At each interval, we made three types of comparison. First, core banks were compared with peripheral banks. Second, new banks were compared with old banks. And third, the groups of banks with state, private, and foreign ownership were compared against each other.

While correlations, ANOVA, and descriptive statistics facilitated an analysis of broad patterns, the accompanying scatter diagrams made a more fine-tuned analysis possible and led to a more precise assessment of dispersion and variation. Although the use of two-dimensional plots appears to be a primitive method for exploring isomorphism and variation in comparison with methods such as cluster analysis, the former was favoured to the latter. This was because the latter is not necessarily a more accurate or reliable method of analysis (i.e. it may produce diverging results depending on the specific sub-methods or procedures) and the former was a powerful technique for visualisation of similarities and differences within and across categories of firms. In addition, in situations where no clear groupings are identifiable, cluster analysis becomes a useless technique for measuring similarity and variation. Above all, being a more suitable technique for identifying and/or forming groups (clusters) of subjects (in this case firms) based on a selection of variables, it was not a useful technique for analysing similarity and variation in each individual variable across all subjects and categories of subjects. After all, our main objective was not producing a taxonomy or typology of firm strategy and templates, but assessing similarities and differences across firms, firm categories, time intervals, and combinations of these through the most parsimonious yet accurate, comparative technique. In that respect, univariate analysis techniques were as powerful, if not more so, as multivariate analysis.

Results of analyses, which can be can be found in Appendix 3 and 4, will be discussed in detail in Chapter 6.

Chapter 6

Macro Study Results

In this chapter, we will present and discuss the outcomes of our macro-level study. We will start with an analysis of associations among the variables employed and provide some preliminary information on relationships between firm and time categories and the variables indicating business strategy and templates. We will then provide a more detailed descriptive analysis for each period in question. Finally, we will conclude this chapter with an overall interpretation and discussion of results.

6.1 Preliminary Analysis: Associations among Variables

Table 6.1 exhibits the coefficients of association between time and firm categories (i.e. explanatory variables) and business template indicators (i.e. the dependent variables) as well as those among the latter.[26] Here, we will point out the major relationships that can be inferred from that table.

6.1.1 Relationships between Independent and Dependent Variables

- *Time* (YEAR): A strong relationship exists between time interval and each of the dependent variables except equity participations. This means that the weight of equity participations does not vary significantly from one period to another and is therefore on average quite stable, whereas all other indicators of banking strategy and template do vary across different periods.

- *Ownership (State, Private, Foreign)* (OWNER): A strong relationship also exists between ownership type and each of the dependent variables except commercial deposits, diverseness of funds generation, and sum of diversification measures. This means that type of bank ownership also has an effect on banking strategy and templates, except that, by itself, it does not affect the extent of reliance on commercial deposits, diverseness of funds generation and overall diversification as strongly.

- *Age (New versus Old Banks)* (NO): A strong relationship also exists between age categories (new-old) and each of the dependent variables except equity participation, deposit collection, diverseness of funds placement, and shareholders equity. It is interesting that age category is not strongly related with the extent of emphasis on deposit collection and diverseness of funds placements, whereas all other indicators of business strategy and template are quite strongly related with it. The low association with shareholders' equity is on the other hand normal due to industry-wide regulative

[26] The relationship between explanatory (independent) and dependent variables was captured through the Eta coefficient produced by ANOVA (see Appendix 3) due to categorical measurement of explanatory variables. The relationship among dependent variables was captured through Spearman correlation coefficient, as these were measured on ratio scale. For a complete list and of variables, variable names, and their meaning, see Appendix 2.

control, the implications of which may however differ over time, and apparently, also across ownership.

- *Core-Periphery* (CP): The relationship between institutional and market power (core-periphery distinction) and some of the banking template indicators is relatively moderate, but still quite evident. Specifically, these are the extents of emphasis on credit provision, on investments in securities, and on international borrowings. The relationship with extent of emphasis on inter-bank borrowing and lending is somewhat stronger. Again, as was the case with other relational category indicators, there exists a weak relationship between institutional and market power and emphasis on deposit collection, commercial deposits, equity participation, shareholders' equity, and diversification measures except diverseness of deposits.

- *Size* (BR, PERSON, ASSETS): The strength of relationship between each of the three indicators of organisation size, i.e. branch network size, personnel size, and total assets size, and banking strategy and template indicators is very much like the relationship between the latter and institutional and market power (see core-periphery above). This is quite normal, since these are themselves closely related with each other.

As an interim evaluation, we can now state the following: We can expect to identify significant changes over time in almost all strategy and template indicators. The only aspect of banking strategy and template that at first sight appears to be rather stable is the extent of emphasis on equity participation. The only relational categorisation that this variable appears to have a strong relationship with is ownership. It is reasonable to guess that this would probably be due to the role of foreign ownership. Otherwise, it seems to exhibit little variation across time and type of economic actors.

The weak relationship between each of the three types of organisation-system (inter)-dependence and emphasis on deposit collection, however, stands out as a noteworthy observation. There may be various explanations for this. First, there may really be no significant difference across firm categories in that respect. Second, as a strong relationship exists between deposit collection and time intervals, there may also exist a stronger relationship between deposit collection and relational groups at more specific points in time. Third, there may also exist a stronger relationship with certain combinations of relational firm categories (e.g. core versus peripheral banks within the group of old firms, state-owned versus private-local banks within the group of core firms, private-local versus foreign banks within the group of peripheral firms, etc.). And finally, a stronger relationship actually exists between specific sub-categories/types of deposits and relational groups of firms, which may be a better or more precise indicator of banking strategy and template than deposits as a composite/aggregate measure.

It is noteworthy that institutional and market power by itself is less strongly related with strategy and template indicators than the other relational categories that also serve as an indicator of system-organisation (inter)-dependence, i.e. ownership type and age category. It will therefore be useful to also investigate if certain combinations of these relational categories (e.g. see the previous item) have a stronger bearing upon strategy and templates than any of the main relational categories.

It is quite normal that the strength of the relationships between the three different measures of organisational size and strategy and template indicators is quite comparable to the strength of the relationships between the latter and institutional-economic power. This is because the institutional-economic power measure (i.e. relative share of the market in terms of total assets) is actually closely related with the absolute size of assets, which is related with size of personnel and branch network. It is however noteworthy that the results obtained using categorical variables (nominal scale of measurement) are not too different from results obtained using continuous variables (ratio scale of measurement).

6.1.2 Correlations between Dependent Variables

- Within the group of variables indicating different funds placement activities, a strong negative relationship exists between emphasis on credit provision and emphasis on investments in securities as well as inter-bank lending. This shows that the latter two forms of funds placement indeed serve as an important alternative to credit provision.

- The absence of a clear relationship between equity participations and any of the other funds placement activities could mean that this item does not exhibit much variation. Indeed, there also exists no clear relationship between equity participations and the explanatory variables that were discussed above, except for ownership type.

- A clear and negative relationship exists between other uses of funds and each of the specified funds placement activities. This variable measures the remaining placements that are not captured by credits, securities, inter-bank lending, and equity participations. In that sense, it is an aggregate variable, including items such as fixed assets (i.e. real estate, machinery and equipment, etc), accumulated losses from prior years, uncollected receivables, etc., of which the latter two show up in especially state-owned banks. Because this aggregate variable does not measure anything closely related with banking strategy and template, we will not deal with it much further.

- Within the group of variables indicating different means of funds generation, there seems to be no clear relationship between deposit collection, international loans, and inter-bank borrowings. Again, we see that this is not the case when we explore the specific sub-categories/types of deposits.

- A more clear relationship exists however between other sources of funds and each of the specified means of funds generation. This variable measures the remaining sources of funds that are not captured by deposits, international loans, inter-bank funding, and shareholders' equity. In that sense, it is an aggregate variable, including items such as accumulated funds (i.e. prior years' revenues), interest payables, tax payables, and other payables to government (especially in the case of state-owned banks). Because this aggregate variable does not measure anything closely related with banking strategy and template, we will not deal with it much further.

- Within the group of funds generation variables, international borrowings variable is the one most strongly related with most funds placement variables. These correlations imply that banks, which have higher international borrowings, are also likely to have higher investments in securities and higher inter-bank lending but lower emphasis on credit provision.

Table 6.1 **COEFFICIENTS OF ASSOCIATION: ETA COEFFICIENTS and PEARSON CORRELATIONS (N=198)**

	Independent (Explanatory) Variables				Size Indicators-I			Funds Placement Items					Funds Generation Items				
	Eta Coefficients for				Pearson Correlation Coefficients for												
	YEAR	OWNER	NO	CP	BR	PERSON	ASSETS	TCTA	SECTA	LBFBTA	EPTA	OUFTA	TDTA	FFATA	CFLBILTA	SENITA	OSFTA
TCTA	.419	.200	.219	.139	.163	.169	.190	1.000									
	.000	.019	.002	.052	.022	.018	.007	.									
SECTA	.360	.246	.226	.146	-.078	-.076	-.131	-.392	1.000								
	.000	.002	.001	.040	.274	.288	.067	.000	.								
LBFBTA	.495	.475	.493	.222	-.178	-.166	-.212	-.440	-.043	1.000							
	.000	.000	.000	.002	.012	.020	.003	.000	.544	.							
EPTA	.164	.214	.083	.094	-.026	-.034	.017	-.062	-.109	-.090	1.000						
	.153	.010	.244	.186	.716	.633	.815	.382	.125	.207	.						
OUFTA	.488	.342	.423	.164	.095	.079	.127	-.169	-.343	-.494	-.192	1.000					
	.000	.000	.000	.021	.182	.267	.074	.018	.000	.000	.007	.					
TDTA	.267	.177	.043	.044	.081	.063	-.006	-.140	.078	.221	-.123	-.095	1.000				
	.002	.045	.544	.537	.255	.379	.935	.049	.273	.002	.085	.182	.				
FFATA	.497	.294	.343	.156	-.137	-.118	-.123	-.278	.270	.363	.094	-.351	-.110	1.000			
	.000	.000	.000	.028	.054	.098	.085	.000	.000	.000	.189	.000	.123	.			
CFLBILTA	.461	.220	.428	.206	-.174	-.148	-.177	.074	.172	.106	-.070	-.281	-.014	.112	1.000		
	.000	.008	.000	.004	.014	.037	.013	.303	.015	.136	.330	.000	.845	.118	.		
SENITA	.237	.195	.082	.028	-.050	-.056	-.016	.007	-.022	.174	.042	-.178	-.309	.042	-.105	1.000	
	.010	.022	.252	.700	.483	.435	.823	.918	.761	.014	.554	.012	.000	.561	.143	.	
OSFTA	.222	.204	.237	.084	.017	.030	.069	.179	-.141	-.431	.070	.338	-.668	-.176	-.067	-.450	1.000
	.020	.016	.001	.241	.815	.674	.334	.012	.047	.000	.329	.000	.000	.013	.345	.000	.

** Significant at the 0.01 level (2-tailed).
* Significant at the 0.05 level (2-tailed).

NOTE:

(1) ANOVA statistics including the Eta coefficients are provided in Appendix 3, Part D.
(2) Although the analysis is not sample-based, i.e. the entire population has been analysed, the statistical significance levels are provided, in order to facilitate a categorical differentiation of strong, moderate, and low associations.

(Table 6.1 continued)

	Independent (Explanatory) Variables				Size Indicators-I			Funds Placement Items			Funds Generation Items			Deposit Items						Diversification Measures				Size Items-II	
	Eta Coefficients for				Pearson Correlation Coefficients for																				
	YEAR	OWN	NO	CP	BR	PER	ASS	TCTA	SECTA	LBFBT	TDTA	FFATA	CFLBIL	SDTD	CDTD	PDTD	BDTD	FXDTD	ODTD	DIVFG	DIVFP	DIVDE	SUMDI	NOBR	NOPE
SDTD	.700	.392	.539	.159	.225	.184	.172	.047	.000	-.485	-.058	-.445	-.394	1.000											
	.000	.000	.000	.029	.002	.011	.018	.519	.998	.000	.425	.000	.000	.											
CDTD	.737	.052	.349	.047	.030	-.004	-.008	.247	-.345	-.291	-.186	-.316	-.137	.239	1.000										
	.000	.779	.000	.520	.682	.954	.916	.001	.000	.000	.010	.000	.060	.001	.										
PDTD	.375	.631	.229	.448	.390	.455	.483	.156	-.157	-.236	-.136	-.169	-.178	.213	.074	1.000									
	.000	.000	.002	.000	.000	.000	.000	.032	.031	.001	.062	.020	.014	.003	.309	.									
BDTD	.244	.438	.467	.203	-.248	-.205	-.194	-.110	.081	.394	.080	.363	.267	-.597	-.292	-.152	1.000								
	.010	.000	.000	.005	.001	.005	.007	.131	.268	.000	.274	.000	.000	.000	.000	.036	.								
FXDTD	.816	.264	.365	.138	-.134	-.130	-.137	-.115	.157	.344	.099	.327	.277	-.595	-.525	-.297	-.085	1.000							
	.000	.001	.000	.058	.065	.074	.061	.116	.031	.000	.173	.000	.000	.000	.000	.000	.247	.							
ODTD	.292	.301	.040	.201	.171	.193	.209	-.028	.003	-.031	.076	-.002	-.062	-.117	-.156	-.050	-.130	.087	1.000						
	.001	.000	.581	.005	.019	.008	.004	.699	.964	.671	.297	.977	.397	.110	.032	.493	.074	.235	.						
DIVFG	.230	.132	.129	.075	.062	.052	.068	.235	-.070	-.313	-.852	.023	-.052	.129	.161	.056	-.204	-.042	-.014	1.000					
	.014	.179	.071	.291	.384	.469	.344	.001	.327	.000	.000	.751	.463	.077	.027	.440	.005	.564	.853	.					
DIVFP	.362	.269	.058	.080	.027	-.003	-.040	.271	.257	-.102	-.208	.169	.190	-.197	-.130	-.252	-.076	.372	.066	.371	1.000				
	.000	.001	.418	.265	.708	.964	.580	.000	.000	.152	.003	.017	.007	.007	.074	.000	.296	.000	.368	.000	.				
DIVDEP	.416	.313	.248	.349	.296	.286	.307	.322	-.280	-.203	-.139	-.083	.021	-.058	.314	.192	-.257	-.016	.351	.223	.197	1.000			
	.000	.000	.001	.000	.000	.000	.000	.000	.000	.005	.056	.256	.776	.427	.000	.008	.000	.826	.000	.002	.006	.			
SUMDIV	.242	.151	.143	.088	.077	.064	.080	.261	-.074	-.359	-.864	.021	-.045	.118	.165	.055	-.212	-.031	.002	.999	.420	.261	1.000		
	.011	.119	.050	.228	.294	.378	.275	.000	.309	.000	.000	.779	.540	.106	.023	.454	.003	.675	.983	.000	.000	.000	.		
NOBR	-	-	-	-	.938	.909	.871	.163	-.078	-.178	.081	-.137	-.174	.146	-.013	.288	-.236	-.042	.250	.057	.069	.340	.074	1.000	
					.000	.000	.000	.022	.274	.012	.255	.054	.014	.044	.854	.000	.001	.566	.001	.429	.333	.000	.312	.	
NOPER	-	-	-	-	.896	.934	.884	.169	-.076	-.166	.063	-.118	-.148	.112	-.045	.340	-.194	-.045	.283	.045	.042	.327	.061	.963	1.000
					.000	.000	.000	.018	.288	.020	.379	.098	.037	.124	.538	.000	.007	.538	.000	.530	.558	.000	.408	.000	.

** Significant at the 0.01 level (2-tailed).
* Significant at the 0.05 level (2-tailed).

NOTE: (1) For ANOVA statistics including the Eta coefficients see Appendix 3, Part D.
(2) Although the analysis is not sample-based, i.e. the entire population has been analysed, the statistical significance levels are provided, in order to facilitate a categorical differentiation between strong, moderate, and low associations.

6.2 Descriptive-Comparative Analyses (across time and bank groups)

Appendix 3 entails the tables showing descriptive statistics for these variables. Part A entails the major funds generation and funds placement activities of banks as per cent of total assets. Part B exhibits the types of deposits as per cent of total deposits. Part C shows types of revenues as per cent of total revenues. The data in these tables indicate the mean and variance values (plus the values of variance over mean) across each category of banks. Each table has two parts: The first part compares state banks, private banks, and foreign banks. The second part compares the core banks with peripheral banks and the new banks with old banks.

In addition, Parts E and F present the mean and standard deviation values for subgroups of banks, that is to say, for more specific combinations of relational groups such as new peripheral banks versus old peripheral banks or core state-owned banks versus core private banks, and so on. In addition to the summary statistics for different groups of banks, scatter diagrams were used in order to provide a visual presentation of patterns of dispersion and the distribution of banks and bank groups with respect to each dependent variable (see Appendix 4).

Whereas descriptive statistics are useful as a detailed reference for specific values of group means and group dispersion, the diagrams provide an accurate representation and holistic understanding of the big picture. They have however not been used as a substitute for each other, but rather as complementary means of analysis, with as many cross-checks (triangulation) between the two methods as necessary until a common ground was reached. (I.e. until each observation got support from each of the methods used.) The following general guideline has been applied during the interpretation of the results of the above-mentioned analyses and the accompanying process of triangulation. In order for the amount (extent) of change in a given variable to be considered as significant, both the magnitude of the change in the mean value had to be significantly large (i.e. the mean values pertaining to pairs of time intervals had to be significantly different), and also the change had to apply to a reasonably large section of banks in the relevant group (i.e. if the large change in the mean value was rather a result of an exceptionally large change in one or a few banks, this was not considered as a significant change applying to the group as a whole). Similarly, when comparing groups of banks, for a difference to be considered as significant, both the mean values had to differ significantly and the difference had to apply to a large section of the banks in the relevant groups. When interpreting results pertaining to isomorphism and diversity / variation, standard deviation and variance values were interpreted not in isolation but together with the relevant mean values. (Per se, a larger standard deviation or variance value does not mean higher dispersion, if the respective mean is also higher. These values were always compared relative to the respective means of the relevant groups.) Furthermore, visual information provided by scatter plots proved especially useful in that respect.

In the following three sections, we will describe the results pertaining to the pre-transformation period, the initial period of industry transformation, and the extended period of transformation. In each section, we will first go over the variables one by one, followed by a general discussion of the industry picture with due regard to different actor constellations. Table 6.2 at the end of this chapter provides a summary of these findings.

6.2.1 Pre-Liberalisation Period

Deposits Collection and Credit Provision (TD/TA and TC/TA)

In general, no major change in emphasis on credit provision is evident in this stable period in any group, except some in foreign banks. Change in emphasis on deposit collection is of a minor extent, and there is no major difference between core and periphery in that respect. Overall diversity is high, and isomorphism is evident only among core private banks. Banks in that cluster heavily relied on deposit collection for generating funds and moderately placed these funds in credits. This was the main group of banks that were heavily engaged with commercial retail banking, with a few state banks and one foreign bank also situated close to this cluster. Significant variation existed among the remaining banks, however, it is also evident that the three ownership types differed from one another in terms of these two major dimensions of funds generation and placement. Foreign banks and most of the smaller private banks had less reliance on deposit collection, but similarly moderate levels of credit extension in 1969 and somewhat lower levels in 1979. These banks rather operated in a wholesale mode, forming the wholesale niche in the sector. State banks exhibited the highest variation in terms of both variables, some of which had quite extensive reliance on deposit collection and credit extension like core private banks. Though not as isomorphic with and as homogeneously distributed as the core group of private banks, these resembled the latter in exhibiting the salient features of commercial retail banking. Other state banks, however, had very limited deposit collection activity and operated rather like a wholesale and/or investment bank.

Composition of Deposits (SD/TD, CD/TD, PD/TD, BD/TD, FXD/TD)

Savings and commercial deposits (both in TL) were in that period the two main types of deposits. Savings deposits can be considered a good indicator of retail banking as they involve time deposits of large numbers of individuals. Commercial deposits is a less clear-cut indicator of retail or wholesale approach, as these may involve both a smaller number of large business customers and larger number of smaller business customers. Public deposits were an additional component of mainly state-owned banks' deposit portfolio. And there were also some bank deposits, mainly in foreign banks. This however is clearly another indicator of these banks' wholesale business template. There was significant overall diversity in the periphery in terms of the weights of savings and commercial deposits, but the core was quite isomorphic. Although the weight of commercial deposits increased to some extent at the expense of the weight of savings deposits in all bank groups, such increase and change was more evident in the periphery, possibly indicating relatively greater involvement with wholesale customers in that group.

Inter-Bank Borrowing and Inter-Bank Lending (CFLBIL/TA) and (LBFB/TA)

In the pre-1980 period, there was no inter-bank borrowing, and inter-bank lending was only in the form of bank deposits.[27] Such bank deposits were gathered mainly in foreign banks (see above).

[27] Normally, when speaking of inter-bank lending we should also speak of inter-bank borrowing. The reason for not doing so here is that an inter-bank market was not in existence then.

Equity Participation (EP/TA)

Although cross-financing schemes between industrial enterprises and banks have been a widespread practice, funds allocated to direct participation in industrial enterprises compared to the total size of banks' assets have mostly been quite low. This being the case, state banks had somewhat higher levels of direct investments in industry.

Composition of Revenues (IR/TR, IRC/TR, IRS/TR, CF/TR, FXR/TR, CMR/TR)

Historically, interest revenues from credits were the major revenue source for all types of banks, indicating a basic commercial banking style. Commission and fees were also of some importance, but mainly in private and foreign banks in the periphery, hinting at some involvement with services going beyond simple financial inter-mediation.

Diverseness of Funds Generation and Funds Placement (DIVFG) and (DIVFP)

The two variables that measure the extent of diverseness (diversification) of funds generation sources and funds placement activities indicate moderate values for all bank groups in this period. That means, generally speaking, they did not have a very concentrated funds generation and placement portfolio to be called pure specialists in either retail or wholesale banking. They did not have a very diversified funds generation and placement portfolio either, so that they can be considered as true generalists involved in both types of banking to the same degree. However, to point out a slight degree of difference, we can highlight two observations. One is that foreign banks had a slightly more diverse set of funds generation sources. This is likely a result of a more prominent share of bank deposits in their funds portfolio in comparison with other types of banks, which means that these incorporated more wholesale banking elements in comparison to others. The other observation is that core private banks had a slightly more and core state-owned banks a slightly less diverse funds placements in comparison with other groups, but these differences are only of a small degree and do not warrant a qualitative distinction.

Overall Evaluation

The two major observations concerning the pre-transformation period are the high level of stability and the significant isomorphism within the group of core private banks. There is some change in mainly the periphery and especially in foreign banks, but this is far from being of a significant magnitude. There are some differences in banking styles between different ownership groups, but that is also coupled with high variation except in the group of core private banks linking these with a stronger retail approach. In that respect, they are different from most of the foreign and other private banks in the periphery. Variation is also quite high among both core and peripheral state-owned banks, linking some of these with core private banks and placing others in quite unique spots as possibly a result of unique financial inter-mediation tasks within the state apparatus.

Nevertheless, it is appropriate to mention them, because bank deposits in any one bank's funds generation portfolio are classified as inter-bank lending in another bank's funds placements.

6.2.2 Initial Period of Liberalisation

Deposits Collection and Credit Provision (TD/TA and TC/TA)

In this period, a considerably different and more dynamic pattern becomes apparent. In 1989, the overall variation in deposit collection and placements in credits is lower, and the difference between ownership types insignificant. At this stage, most banks appear to have moved towards moderate levels of deposit collection and credit extension. In general, it is possible to speak of some isomorphic tendency; however, variation is still higher among peripheral banks. Regarding deposit collection, higher variation especially applies to new banks. Regarding credit provision, this is especially the case in the group of foreign banks. There also exists some difference between old and new banks in terms of reliance on deposit collection. Old banks rely more heavily on deposit collection compared to new banks. This especially holds for core private banks, which are also quite isomorphic in that respect.

Composition of Deposits (SD/TD, CD/TD, PD/TD, BD/TD, FXD/TD)

Being for a long time the major source of deposits, over time, (TL) savings deposits have consistently become less important for all types of banks in the sector. However, this was more clearly the case in private banks, especially new ones, and in foreign banks. Variation was high among especially old and private banks in periphery. In the post-1980 period, with the introduction of a liberal foreign exchange regime, foreign exchange deposits started to become a substitute for savings deposits for all types of banks, and the first movers were from the periphery. Notwithstanding the high amount of diversity, both old and new banks in the periphery had significant reliance on FX deposits, but old foreign banks were more distinct in that respect. Bank deposits had also become a more important component of deposits portfolio in that period, especially in new banks, but there also was high diversity in that respect.

Inter-Bank Borrowing and Inter-Bank Lending (CFLBIL/TA) and (LBFB/TA)

After 1980, both inter-bank borrowing and lending picked up rapidly, spreading among the new banks initially. The first movers were from this group, but variation was also high. The core, however was making considerably less use of inter-bank funds, and also was quite isomorphic in that respect.

International Borrowings (FFA/TA)

In the period before 1980, banks could not borrow from international sources. Following the opening of the capital account and the convertibility of the Turkish Lira in 1989, banks started making use of international sources. In 1989, funds generation from abroad was however in general still quite low. The first movers were from among private banks in the periphery, from new as well as old. These surpassed all other banks, including the foreign banks, in making use of funds borrowed from abroad. Operating with a very small number of branches and with little reliance on deposit collection, many of these banks used international sources as an important alternative to local sources of funding. International borrowing got especially strong in periods with overvalued Turkish Lira, which made financing in foreign currencies cheaper compared with bank financing in the local currency. However, it has to be emphasised that there existed significant variation also in that respect in the periphery.

Investments in Securities and Capital Markets Business (SEC/TA)

In the period before 1980, bank investment in securities was negligible. This is natural given that capital markets were underdeveloped until late in the 1980s. The secondary market for government securities became operational in 1985 and the Turkish stock market was practically non-existent until 1986. Following these developments, securities markets developed rapidly and capital market instruments have become a major investment outlet for many banks. Again, the first movers came from the periphery, new banks in particular. However, variation was also quite significant.

Composition of Revenues (IR/TR, IRC/TR, IRS/TR, CF/TR, FXR/TR, CMR/TR)

We observe that in all groups interest revenues from securities and capital market revenues have picked up and foreign exchange revenues increased significantly except in state-owned banks. However, diversity was significant in all types of revenues and there was no major difference between bank groups (except lower FX revenues in state-owned banks).

Diverseness of Funds Generation and Funds Placement (DIVFG) and (DIVFP)

In 1989, we observe that diversity in funds generation sources increased in peripheral banks a little, but there was also higher variation in that group. The increase is likely associated with these banks higher involvement with international and inter-bank borrowings as well as foreign exchange and bank deposits. At the same time, there was a major increase in the diversity of funds placement activities in all bank groups, with little variation across banks and bank groups.[28]

Overall Evaluation

The most striking findings regarding the initial period of transformation are the following: First, the first-movers into new markets and banking territories were peripheral banks, whereas core banks exhibited higher inertia. These entered the international funds generation markets, the capital markets, the inter-bank money markets and the foreign exchange deposits market more rapidly and made on average heavier use of them as a

[28] Given the higher involvement of peripheral and especially new banks with the new types of funds placement activities such as inter-bank lending and securities transactions, one may actually expect their funds placement portfolio to also exhibit significantly higher diversity. On the other hand, if these two new types of funds placement activity, at least in some of those banks, already replaced other types of funds placement to a large extent, then this would not necessarily be the case. Given the high variation across bank groups in terms of each of the three variables (i.e. diverseness of funds placement, inter-bank lending, investments in securities), it is not possible to arrive at a clear conclusion with respect to these two possibilities.

source of funds and an outlet for placements. In terms of the extent of reliance on international borrowings, private banks in the periphery were the leaders and there was no significant difference between old and new banks within that group. It is noteworthy that private (local) banks were ahead of foreign banks in that respect and even new banks were able to generate significant funds from abroad. In terms of the extent of reliance on investments in securities and on inter-bank borrowing and lending, new banks in the periphery, both private and foreign, were the flag carriers. It is also noteworthy that older banks were relatively less involved with these markets even in the periphery. In contrast, all peripheral banks, both old and new and private (local) and foreign, became more heavily involved in FX deposits in comparison with core banks, and old foreign banks were even more distinct in that respect.

Second, although the first-movers into new territories were mainly from the periphery, and on average, these group of banks were more involved with these new business practices, it has to be underlined that variation (diversity) among these banks was also significant. In other words, there exist clear trends and a stronger association of these trends with the peripheral groups, but variation is too significant to speak of homogeneous groups and processes.

Third, as a corollary to the entries into new markets and banking territories, reliance on deposit collection and credit provision, i.e. on more traditional commercial banking practice, appears to have subsided in all banks, but again, more so in the periphery, and especially in new banks. In stark contrast, old banks, and especially the core, continued to be more heavily involved with traditional commercial banking practices and less with the new. It is also noteworthy that core private banks were particularly isomorphic in that respect, very much as they were previously.

Finally, we can state that there is stability in both isomorphism and diversity in that they have a stable link with the same actor constellations over time, i.e. stability in higher isomorphism in the core and stability in higher variation in the periphery.

6.2.3 Extended Period of Liberalisation

Deposits Collection and Credit Provision (TD/TA and TC/TA)

In 1999, a general movement is observable towards higher levels of deposit collection and lower levels of placements in credits. Nevertheless, overall variation, especially in terms of deposit collection, is also considerably higher due to high increase in diversity among peripheral banks, especially among new banks despite a significant increase in emphasis on deposit collection in this latter group. In contrast, significant isomorphism, in both deposit collection and credit provision, is evident among old banks, and particularly within the core. It is also noteworthy that these still exhibit higher involvement in credit provision. Foreign banks, especially new ones, exhibit the starkest contrast in that respect, with substantially less involvement with credit provision.

Composition of Deposits (SD/TD, CD/TD, PD/TD, BD/TD, FXD/TD)

In 1999, a general and sharp (except in state-owned banks and new foreign banks) movement towards higher levels of FX deposits is evident, and this movement is more pronounced in private banks, both core and peripheral, and new and old. Foreign exchange deposits had become a more significant source of deposits for private banks than for foreign banks on average, but variation, especially in the periphery, was also very high. It is noteworthy that core private banks had much higher reliance on FX deposits than others, and they were also quite isomorphic in that respect. In terms of (TL) savings deposits, there was high diversity in general, with the exception of state-owned banks, which continued to have a strong reliance on TL savings deposits. High overall diversity also applied to bank deposits, but the core was more isomorphic again. Both foreign and private banks in the periphery were relying on bank deposits to a greater extent than others, especially the state-owned banks. In this period, commercial (TL) deposits have become a less important source of funds for all types of banks and public deposits, which had been especially of significance for state banks, exhibited a similar pattern.

Inter-Bank Borrowing and Inter-Bank Lending (CFLBIL/TA) and (LBFB/TA)

By 1999, core banks were still little involved in inter-bank borrowing and lending, and were quite isomorphic in that respect. Peripheral banks on the other hand, and particularly foreign banks, had become even more heavily involved in inter-bank lending, but there was also high variation. In foreign banks, reliance on inter-bank lending had become even higher than reliance on any other type of funds placement. There was however a simultaneous decrease in inter-bank borrowings in the periphery. Overseas borrowings were a better alternative to inter-bank borrowings for these banks, whereas deposit collection was a better alternative for core banks. (There seems to be a paradox here. If both core and peripheral banks make little use of inter-bank borrowings, how is it possible for peripheral and especially new banks to be heavily engaged in inter-bank lending? The answer to that question and the resolution to the paradox lie in the fact that the size of foreign banks is rather small. No matter how heavily involved they may be in inter-bank lending, the equivalent of these lendings in terms of borrowings by other groups of banks can still be a small portion of these banks' total funds generation portfolio. This is because their total size is much larger than those of foreign banks.)

International Borrowings (FFA/TA)

Over the 1990s, a decade of experience with international markets contributed to a significant increase in funds generation from international sources. In 1999, this had become a more common practice in the sector and especially in the periphery, but variation was also quite substantial. Foreign banks, especially new foreign banks, were more distinct in terms of high reliance on international funds. Furthermore, core banks, both private and state-owned, were more inert and homogeneous in that respect and kept international borrowing at a low level. For these banks, funding from abroad could not constitute a significant alternative to deposits and to other sources of funds.

Investments in Securities and Capital Markets Business (SEC/TA)

In this period, further expansion of these markets and especially the steady growth in government borrowing to finance an ever-widening budget deficit contributed to a more widespread and heavier presence of banks in these markets. In 1999, a widespread heavier presence of all bank groups in these markets is evident, except in state-owned banks[29], but including core private banks. The overall variation in that respect had however also become higher, especially among new banks and foreign banks. Private banks, notably at the core, were more isomorphic.

Equity Participations (EP/TA)

Funds allocated to direct participation in industrial enterprises compared to the total size of banks' assets have in general remained quite low, despite some increase in private banks.[30]

Composition of Revenues (IR/TR, IRC/TR, IRS/TR, CF/TR, FXR/TR, CMR/TR)

Although gradually losing some importance for especially private and foreign banks, interest income has remained the most important revenue source for all types of banks throughout the entire period. Variation was however high and no strong difference is evident between bank groups in that respect, except that foreign banks remained at the lower end of the spectrum. At the same time, a major increase in the weight of FX revenues is evident in all bank groups. Although overall variation in that respect is also high, peripheral banks exhibit a higher level of involvement with foreign exchange transactions. Interest revenues from securities and capital market revenues also kept increasing, but were also accompanied by significant overall variation. No strong difference in terms of interest revenues from securities is evident between bank groups, but capital market revenues were higher in the periphery. Commission and fees accounted for a very small portion of revenues in all bank groups.

Diverseness of Funds Generation and Funds Placement (DIVFG) and (DIVFP)

When we look at the situation in 1999, we observe that diverseness of funds placements has decreased in state-owned banks and new foreign banks. It is lowest in these two groups, whereas it is highest in core private banks, which are also quite isomorphic in that respect. (It was not possible to make use of the diverseness of funds generation measure in

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[29] State banks in any case were engaged in other forms of state financing activities such as the so-called "duty losses".

[30] Direct participation would actually be an insufficient indicator of the inter-penetration between industry and finance, as this is only the more overt and legitimate form of such financing schemes. The more important form of inter-penetration emerges as a result of extensive credit relationships with firms within the same industrial group as the bank itself, but this study was not able to measure the extent of such financing schemes. Although several regulations were introduced limiting the funds that a bank can extend to inter-linked firms, these caps have often been circumvented in practice through various means including back-to-back credits. The excessive amount of such lending has more recently attracted the attention of bank supervisory authorities, resulting eventually in the transfer of a number of private banks to the Savings Deposits Insurance Fund (SDIF). A number of new supervisory mechanisms were introduced in order to track and prevent similar practices in the future. It is noteworthy that it took the authorities twenty years in the 'free market' context to interfere and eliminate a practice, which has been the legacy of industrialisation policies in previous decades.

that last period due to the presence of some negative values produced by the financials of banks in the SDIF that had a negative capital.)

Overall Evaluation

In this period, we observe a major increase in funds generation from international sources. This became a more common practice in the sector than before, but more in the periphery. Core banks were still relatively more inert. They also remained little involved in inter-bank borrowing and lending in comparison to peripheral banks. In both cases, core banks exhibited strong isomorphism and despite undergoing similar changes, peripheral banks exhibited much more variation.

More general and widespread moves, including also core private banks, are however observable towards heavier emphasis on funds placements in securities and capital market business at the expense of credit provision (and away from placements in credits). But core banks were still more involved in credit provision and they were more isomorphic in that respect as well as in terms of investments in securities. At the same time, new and foreign banks in the periphery exhibited major diversity in terms of securities business. A general and widespread move also applies to higher emphasis on deposit collection (interestingly more pronounced in new banks) and in particular foreign exchange deposits. But, old banks in general, and core banks in particular were more isomorphic. Only state-owned banks continued to have a strong reliance on TL savings deposits. Looking at the composition of revenues, we see that peripheral banks were still distinct in terms of generating a greater portion of revenues through foreign exchange and capital market transactions, and that supports further the above-mentioned differences between core and periphery.

6.3 Overview and Discussion of Results

The foregoing analysis points to differences in strategies and strategic paths of different actors. There is considerable evidence for within and between group difference in the amount, timing, and type of changes adopted by different relational groups. A very important implication of the analysis is that the core-periphery distinction is indeed a significant distinction. Strategy templates, their timing and change, and the extent of isomorphism and diversity, all differ clearly between these two groups. Furthermore, such differences are at least as large as and in many cases even larger than the differences between new and old banks.

6.3.1 Pre-Liberalisation

We already have pointed out that the two major observations concerning the pre-transformation period were the high level of stability in general and the significant isomorphism within the group of core private banks. We also said that there were some differences in banking styles between different ownership groups, but these were also coupled with high within-group variation, except in the group of core private banks linking these with a stronger retail approach. We mentioned that in that respect they were different from most banks in the periphery and some state banks in the core.

These observations support some of our initial predictions. Indeed, in a highly regulated and institutionalised context, firm strategy and business templates change little in comparison with a context of liberalisation and internationalisation marked by institutional upheaval and flux, irrespective of relational group (resource dependencies). Furthermore, in such a context, there is little difference between relational groups in terms of the amount of strategy and business template changes. The little amount of change observed is more associated with foreign banks. And this is likely to be related with resources, decisions and choices steered externally, i.e. from their country of origin.

The prediction of little amount of difference between relational groups in terms of strategy and business templates and in terms of within-group isomorphism-diversity is only partially supported. We had predicted that this would be mainly due to the overriding effect of regulations and institutionalised templates vis-à-vis resources and resource dependencies. Because there would be little variety in resources or resource spaces, there would also exist little alternative or opportunity for strategic choice. Our findings imply however, that there were resource differences and some resource partitioning evident despite little variety in resource spaces.

6.3.2 Initial Period of Liberalisation

As a recapitulation of what was said earlier in this chapter, we should underline the following. Firstly, the first-movers into new markets and banking territories were peripheral banks, whereas core banks exhibited higher inertia. As a counter-process to the entries into new markets and banking territories, reliance on deposit collection and credit provision, i.e. on more traditional commercial banking practice, subsided in all banks, but more in the periphery and especially in new banks. In stark contrast, old banks, and especially the core, continued to be more heavily involved with traditional commercial banking practices. It is also noteworthy that core private banks were particularly isomorphic in that respect, very much like they were previously in the pre-transformation period. Secondly, although the first-movers into new territories were mainly from the periphery, and on average, this group of banks was more involved with these new business practices, it has to be underlined that within-group variation among these banks was also significant. In other words, there existed clear trends and a stronger association of these trends with the peripheral groups, but variation was too significant to speak of homogeneous groups and processes. Thirdly, in some respects, e.g. reliance on international borrowings, there was no major difference between new and old firms in the periphery, but in others, e.g. involvement with securities and inter-bank markets, there was significant difference in favor of new banks, even within the periphery. Important difference between ownership groups in the periphery was limited to international fund generation, and surprisingly, this was higher in local private banks.

6.3.3 Extended Period of Liberalisation

In this period, we observed that significant increases in involvement with some of the new markets were again more closely associated with the periphery. Core banks were still relatively more inert. Furthermore, in each of these, core banks exhibited significant isomorphism whereas peripheral banks exhibited much more variation. In terms of a few indicators, higher variation was also observed among new banks in comparison with old banks and among foreign banks in comparison with private local banks.

6.3.4 Overall

Theoretical predictions about inertia and change are to a large extent supported by empirical analysis. Core banks are more inert and most of the change comes via the periphery, however, not necessarily, or always, via new banks. This also means, old banks are not necessarily inert, unless they are in the core. Although core appears to some extent to follow periphery with some time lag, both the scope and extent of changes are much smaller in that group, giving rise to persistent differences between the two groups.

There is also some evidence for time-related variation in strategic diversity and specialisation in the sector. Some difference observed between ownership groups provides support for the role of social dependencies and the associated partitioning of resources. However, in general diversity appears to be higher in the periphery than in the core. In the latter group, important differences exist between state and private banks as well as among state banks, but private banks are highly isomorphic with one another. Difference in interdependencies between core banks and their stakeholders as well as in their resource base appears to exist between state banks and private banks as well as among state banks. On the other hand, although fewer and less significant differences are apparent in the periphery between private and foreign banks and between new and old banks, the overall variety is much higher. These observations suggest that isomorphic forces are not necessarily the most important or primary factor shaping strategies and strategic changes.

At a more general level, we can state that relative stability/inertia and isomorphism both appear to be closely linked with core banks, and therefore to be coupled together. In contrast, both change and diversity seem to be more closely linked with peripheral banks, and therefore also to be inter-related. In other words, change actually leads to increased diversity in the sector in general and among peripheral banks in particular. At the same time isomorphism is also preserved where it originally was observed through relative inertia and stability. In other words, there is stability in both isomorphism and diversity in that they have a stable link with the same actor constellations over time, i.e. stability in higher isomorphism in the core and stability in higher variation in the periphery.

We can argue that diversity in the periphery arises as a result of greater choice alternatives, as these make it possible for firms to choose different combinations from available alternatives, both qualitatively and quantitatively. And since peripheral actors are more prone to exploring new alternatives and possibilities, they also give rise to greater diversity, even though, from a more superficial perspective it may appear that they as a group try out the same things. In other words, even though peripheral banks are actually more susceptible and open to change, this does not result in greater isomorphism, because of an increase in resource spaces and choice alternatives. Notwithstanding these, it is also not possible to infer a significant systemic difference in resources and resource dependency relations between relational groups in the periphery. The differences appear to be more often company specific. This is because our findings indicate no overwhelming difference between these groups, and variation between such groups is not, necessarily, higher than variation within.

At the same time, the persistent isomorphism at least within the group of private core banks, appears to be mainly the result of greater inertia and path-dependent change as opposed to isomorphic change.

Table 6.2 **SUMMARY OF FINDINGS**

	1969	1979	1989	1999
Credit Provision	▪ High overall diversity ▪ Significant difference between ownership groups ▪ Significant isomorphism within private core ▪ High diversity within state-owned banks, in both core and periphery ▪ Highly stable, i.e. no major change except for foreign banks in periphery		▪ Overall diversity decreasing ▪ No major difference between ownership groups ▪ Core a bit more isomorphic than periphery ▪ Diversity higher among foreign banks in the periphery	▪ Overall diversity just a little bit higher ▪ Foreign banks different from private and state-owned banks, especially new foreign banks. ▪ Higher emphasis on credits by old banks and core banks, which are also a bit more isomorphic
Deposit Collection	▪ High overall diversity ▪ Significant difference between ownership groups ▪ Significant isomorphism within private core ▪ High diversity within state-owned banks, in both core and periphery ▪ Minor change in all groups in both core and periphery		▪ Overall diversity decreasing ▪ No major difference between ownership groups, but deposit collection higher in old banks, especially in core private banks ▪ Core very isomorphic, but high diversity in periphery, especially among new banks	▪ Overall increase in emphasis on deposit collection, but considerably more increase in the group of new banks ▪ Overall diversity considerably higher due to high increase in diversity among peripheral banks and especially new banks ▪ Old banks and particularly core banks are considerably more isomorphic
Types of Deposits	▪ Mainly savings and commercial deposits ▪ Core more isomorphic (i.e. more diversity in periphery) ▪ Public deposits mainly in state banks		▪ High overall diversity in savings, bank, and FX deposits ▪ FX deposits significantly higher in the periphery, both in old and new banks, but especially high in old foreign banks ▪ Variation in FX deposits is however also higher in the periphery, both in old and new and private and foreign ▪ Variation in savings deposits is also high especially among old and private banks in periphery ▪ Bank deposits higher in periphery, especially in new banks, but also high variation in periphery	▪ High overall diversity in savings deposits, but state-owned banks are more isomorphic and have a higher emphasis on TL savings deposits ▪ Even higher overall diversity in bank deposits, but less diversity among core banks and especially state banks, which have the lowest bank deposits ▪ Also high overall diversity in FX deposits, but private banks, especially core private banks are more isomorphic and have higher emphasis on FX deposits
	▪ Little bank deposits	▪ Somewhat higher bank deposits in the periphery, mainly in foreign banks		
	▪ In all groups, weight of savings deposits decreases while weight of commercial deposits increases, but such change is somewhat higher in periphery		▪ First movers to foreign exchange deposits from periphery ▪ Substitution by FX deposits leads to decreasing TL savings and commercial deposits in all groups except saving deposits in core private banks	▪ General and sharp (except in state-owned banks and new foreign banks) movement towards higher levels of FX deposits, which is especially more pronounced in private banks, both core and peripheral and new and old
International Borrowings	▪ None		▪ First movers from periphery, both old and new ▪ Higher in private banks than in foreign banks ▪ However also high variation in periphery	▪ Major increase in periphery, but diversity high ▪ Foreign banks, especially new foreign banks, more heavily involved in international funding ▪ Core inert and homogeneous
Inter-Bank Borrowing & Lending	▪ No inter-bank borrowing, negligible inter-bank lending in the form of	▪ No inter-bank borrowing, minor inter-bank lending in the form of bank	▪ First movers in Inter-bank borrowings from new banks in periphery, but also high variation; core isomorphic and makes little use of inter-bank funds	▪ Core still isomorphic and little involved in inter-bank borrowing and lending ▪ Periphery, still more and heavily involved in inter-bank

	bank deposits (see deposit types)	deposits (see deposit types) in the periphery, mainly in foreign banks	▪ Inter-bank lending also higher in new banks in periphery but also high variation	lending, but high variation ▪ Major overall decrease in inter-bank borrowing in periphery
Securities and Capital Markets B.	▪ Insignificant		▪ First movers from periphery, especially new banks ▪ But also high diversity	▪ Core follows periphery ▪ Major increase in all groups but diversity high ▪ Private banks more isomorphic, especially at the core
Diverseness of Funds Generation	▪ Moderate in all groups, but highest in foreign banks		▪ A little bit higher in periphery, in both old banks (due to major increase) and new banks ▪ But variation also higher in periphery	▪ *Not interpretable due to negative values as a result of negative values of capital in the case of banks in the SDIF.*
Diverseness of Funds Placement	▪ Moderate in all groups, but highest in private banks within core, and lowest in state banks within core	▪ Moderate in all groups, but lowest in state banks within core	▪ Major increase in all bank groups, with little variation ▪ No major difference between groups of banks	▪ Some decrease in state banks and new foreign banks ▪ Diverseness of funds placement lowest in these two groups, and highest in core private banks, which are also much more isomorphic
Composition of Revenues	▪ Mainly interest revenues from credits in all groups, but high variation among state banks ▪ Commission and fee revenues also of importance in private and foreign banks and mainly in the periphery		▪ Diversity high in interest revenues from credits, no major difference between bank groups ▪ Interest revenues from securities and capital market revenues picking up, no major difference among groups of banks ▪ Commission and fees very low, no major difference between bank types ▪ Major increase in FX revenues except in state banks, but high diversity	▪ Substantial diversity in interest revenues from credits, no major difference between bank groups except that foreign banks are at the lower end ▪ Interest revenues from securities overall slightly higher, but also significant variation ▪ Capital market revenues higher in periphery, but high diversity ▪ Commission and fees very low, no major difference between bank types ▪ Overall increase in foreign exchange revenues, which are somewhat higher in periphery, but high diversity
Overall Evaluation	▪ Basic commercial banking activity ▪ Quite stable ▪ Private core more isomorphic, variation/diversity higher in periphery and among state banks, both core and peripheral ▪ Some differences between ownership types		▪ First movers into new (international, capital, inter-bank, FX deposits) markets from periphery, but high diversity ▪ Core inert and more isomorphic ▪ Traditional commercial banking strategies initially more homogenised, with somewhat higher diversity in periphery	▪ Widespread changes in traditional commercial banking activities, but core still more inert ▪ Continuous expansion into new (international, capital, inter-bank, FX deposits) markets in periphery, yet continuing high diversity ▪ Core follows periphery in new banking territories, but still relatively more inert Continuous higher isomorphism within the core
Time independent observations	▪ Major difference between core and periphery in terms of stability and change: core more inert than periphery ▪ Major difference between core and periphery in terms of isomorphism and diversity: (private) core more isomorphic than periphery ▪ Significant coupling of isomorphism and inertia/stability on the one hand and of change and variation/diversity on the other hand ▪ Also some differences between ownership groups, but differences more pronounced in the core and of minor importance in the periphery ▪ Very minor differences between old and new banks within periphery			

PART - III

SECOND-STAGE MICRO STUDY

Chapter 7

Micro Study: Research Methodology and Process

"W*hile financial markets are already global, the banking industry is still local, each country has a group of national banks that dominate a large part of the market. The change of the regulatory and competitive framework has triggered a process of financial innovation and a strategy of change and/or specialisation of financial organisations. But it is not possible to generalise about the quality of the latter without a thorough knowledge of the history and resources available to each organisation to deal with this change*." (Canals, 1997, p.27; 30)

The second-stage micro study involves an in-depth study of selected banks. Cases represent different institutional power groups and different amounts of change over the entire post-liberalisation period as established by the analysis in the first-stage study. Exploring the precise rationale, motivation, process and outcomes of paths of development of different actors, the enterprise case studies should establish more accurately, how and why isomorphic tendencies and partitioning were established, and how, structural inertia combined with substantial business practice change could emerge.

We should underline that this second-stage study has three additional purposes in comparison with the first stage. One is to explore the business (banking) templates, and inertia-change and isomorphism-variation in these, in greater detail and more comprehensively. In other words, it aims to fill the gaps in the more standardised treatment of data in the more extensive study, so that we can capture differences and changes concerning all aspects of business, including specific goals, strategies, and organising principles and operational mode, as well their interrelations. The second major purpose is to uncover the exact process of enactment and adaptation and its interaction with organisational inter-dependencies and power and to account for variance unexplained in the macro-analysis by exploring inner and outer structuration, i.e. the interaction between choice and action and the internal and external context of these. We will thus employ a more processual analysis of inertia-change and isomorphism-variation, describing and explaining how these emerge and interrelate. The third major purpose is an extension of the second and deals with path-dependence of choices and actions. By also exploring and establishing the links between past choices and actions and future ones, we will also be addressing the historic embeddedness of actors and actions.

In this chapter we will first describe the details of case study design, including selection and description of cases. In the second part, we will provide information on data collection and analysis, including details on additional components of "business template" as well as the additional research construct "enactment and adaptation processes".

7.1 Case Study Design

7.1.1 Selection of Cases

Our initial objective was to select six firms, three representing high amount of change and the other three representing low amount of change. In each group of three, we aimed to include one bank from the core, one from old banks in the periphery, and one from new banks in the periphery. In order to control for the effects of ownership type and so limit further complications, all six banks had to come from the group of private local banks.

In our 1999 data set, there were 39 local private banks. However, as of 2002, 20 of these had been appropriated by the Savings Deposit Insurance Fund[31]. This had left us 19 banks as potential targets.

The breakdown of these 19 banks in terms of relational categories was as the following. There were 5 banks at the core, and 14 in the periphery. Of the 14 banks in the periphery, 4 were old banks (established prior to 1980) and the remaining 10 were new banks (established after 1980). Of these 10 ten new banks, 7 were founded in the 1980s, 3 in the 1990s. The former group constituted a more useful target group, since these were included in our data set and previous analyses twice, i.e. both in 1989 and 1999. The latter group was naturally in the 1999 dataset only. Furthermore, of these 7 new banks appearing in both data sets, 4 were under foreign ownership at the time of founding and 1 was an international joint venture. All 5 had been acquired during the 1990s by local investors.

Table 7.1 exhibits the breakdown of the 19 local, private banks which were in our 1999 dataset and which were later not transferred to Savings Deposit Insurance Fund.

Table 7.1

BREAK-DOWN OF LOCAL PRIVATE BANKS		
Core	Periphery – Old	Periphery - New
5	4	10* (7* in both data sets, i.e. 1989 and 99) (3 in only the data set of 1999)

* If the originally foreign owned and joint-venture banks are excluded, the total number of new peripheral banks becomes 5 instead of 10 and those that were part of both data sets becomes 2 instead of 7.

Table 7.2 shows the names of the banks included in the above table. Here the additional, vertical dimension is used to distinguish banks with respect to the amount of change. The distinction is generated using the three most important components of funds generation and placement data (i.e. extent of reliance on deposit collection, extending credits, and investments in securities) that were used in previous quantitative analyses. In order to produce a composite measure, we added up the amount of change observed in each variable between 1979 and 1999 and produced an aggregate change measure for each bank.

[31] A bank that cannot fulfil the capital adequacy requirements according to banking regulations is run by the Savings Deposit Insurance Fund (a government body) until it is sold or liquidated. Since 2002, several of these banks were sold to other banks.

Table 7.2

POTENTIAL CASES			
	Core	Periphery-Old	Periphery-New[1]
High Change[2]	*Garanti Bank* [3] Akbank Isbank	Sekerbank TEB Disbank Imarbank	Kocbank (PIJV) Oyakbank (PF) Korfezbank (PF) Adabank Turkishbank (PF) Sakurabank (PF)
Low Change[2]	Pamukbank [3] *Yapi Kredi Bank*	---	*Finansbank*

[1]The banks included are 7 of the 10 banks mentioned above, which are included in data sets of both 1989 and 1999.
[2] In the Core and in Periphery-Old, the amount of change refers to change between 1979 and 1999. In Periphery-New, this refers to change between 1989 and 1999.
[3] These two were not part of the core in 1969 and 1979.
PJV = Previously international joint venture
PF = Previously foreign

As can be understood from the above table, all banks but one are categorized as high change bank in the periphery, including old and new. This is partly due to the fact that the comparison is not made for each relational group separately. In comparison to most core banks, these banks truly represent a high change situation.[32] Furthermore, two of the three core banks categorized as a high change case (Akbank and Isbank) do not represent an amount of change which is as high as in most banks in the periphery (for higher precision, these could have been categorized as representing medium level change).

Our initial purpose was selecting one bank to represent each of the six boxes represented above. Theoretically this could have been possible except for finding a case to represent the lower middle box, i.e. low change in the group of old peripheral banks. This exception however made the scheme of analysis conceptually incomplete. With this in mind, we considered the option of concentrating on two banks from the core and two from periphery, disregarding the new-old distinction in the latter group.

These methodological considerations had however to be checked against and held in balance with pragmatic considerations such as getting access to target organisations and ensuring their cooperation. Furthermore, another important consideration was the type and number of people to interview. Additional constraints in this regard involved the potential problem of finding a sufficiently large number of people with a long (10-15 years) work history in the same bank, given the extremely high employee turnover levels and number of management transfers between banks during the last two decades. This was something that would limit our ability to find sufficient number of people with similar job characteristics, experience, position, and hierarchical level in different case banks. Consequently, we had to take into account the implications of interviewing people with different positions, jobs, and experience, in view of the historic nature of the study.

[32] It would have been possible to include some other peripheral banks into the low change category, if separate comparisons were made within each relational group, but this was not exactly what we were interested in.

In order to maximise the chance of co-operation by target banks, we used personal contacts (of the researcher and one of her promoters) at senior management level as an initial point of entry. We were able to discuss the possibility of co-operation with six banks and three of them (two core banks and one peripheral bank) agreed to co-operate and assured access to interviewees who matched our requirements as well as to other company documents. These were the banks whose names appear in italic in Table 7.2. The actual field research, which will be described next, was quite fruitful and resulted in reasonably detailed data in the first two cases (the two core banks). But the third case study (the peripheral bank) was relatively less successful in that the actual amount of collected information was less detailed in comparison with the other two cases as a result of fewer interviewees available there. In view of the clearer patterns of change evident in the periphery and because this also constituted a less relevant ground for investigating the historic roots of stability and change paths, we decided to focus on the two core banks and to omit the third case from the overall study.

7.1.2 Description of Case Study Banks

The two core banks were Yapı Kredi Bank (YKB) and Garanti Bank (GB). YKB was founded in 1944 as the first fully private national[33] bank in Turkey. Since its founding, YKB had become one of the major players in the sector and remained so until present. In 1979 (at age 35), with 8.4% share in the total assets of the sector, it had become the fourth largest commercial bank in Turkey and the third largest among private banks. Its share in revenues, branches, and personnel were also quite high at 7%, 10%, and 8.5%, respectively. GB was founded as a single-branch bank in 1946, during the first large wave of private bank founding in Turkey. In 1979 (at age 33), GB had only a 2.6% share in the commercial banking sector in assets size terms and generated only 2.2% of the sector's revenues, while possessing more than 4% and 3% of branches and personnel, respectively.

By 1999 (at age 55), despite a slight drop to 7% of its share in assets, YKB had become the largest privately owned bank and the third largest in the sector in terms of assets size. Its share in revenues, branches, and personnel were however all significantly down at 4%, 6%, and 5.6%, respectively. In 1999 (at age 53), GB's share in the total assets and revenues of the sector had risen to 6.6% and 5% respectively. By then, the bank had become the fifth largest bank in Turkey in terms of assets size. Among privately owned banks, it had taken the third place. And all this took place while its share in branches and personnel got smaller. For a detailed comparison, see Figure 7.1 and 7.2 and Table 7.3 below.[34]

[33] The term "national" refers to nation-wide banking operation as opposed to regional and is interchangeable with the term "non-regional". It should not be confused with "domestic / local".
[34] Note that since 1999, GB's asset size has also become larger than YKB's due to the merger that took place in 2001 between GB and Osmanlı Bank.

Figure 7.1

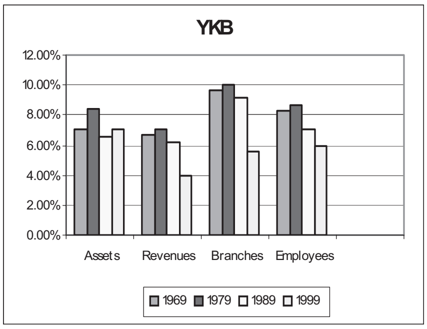


Figure 7.2

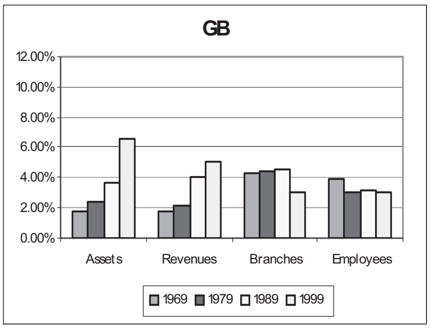


Table 7.3

INDUSTRY SHARES								
	YKB				GB			
	1969	1979	1989	1999	1969	1979	1989	1999
Assets	7.10%	8.40%	6.50%	7.10%	1.88%	2.61%	4.24%	6.60%
Revenues	6.70%	7.10%	6.20%	4.00%	1.75%	2.19%	4.06%	5.04%
Branches	9.60%	10.00%	9.10%	5.60%	4.37%	4.42%	4.51%	3.05%
Employees	8.30%	8.60%	7.10%	6.00%	4.15%	3.22%	3.43%	3.17%

While experiencing a remarkable growth in economic terms, GB's organisation size was shrinking relative to the sector. While its branch network took up 4.4% of the total number of bank branches in the sector in1979, it was down at 3% in 1999. This means that the bank has enlarged its branch network much less than it was the case in the sector. Its personnel size reflecting a 3.2% share in sector's total employment both in 1979 and 1999 had undergone major shifts in the meantime, shrinking fast in the first half of the 1990s and then growing again in the second half. It should be underlined that GB's share of branch and personnel in the sector had become much lower than its share in assets and revenues in 1999, whereas the opposite was the case in 1979. These basic observations, i.e. only very modest organisational growth coupled with the spectacular growth rates in business volume, suggest that the bank must have made important adjustments in its operational routines and perhaps adopted a somewhat leaner organisation structure. The realised increases in market share in various market segments and profits imply that the bank must have also pursued effective strategies. Furthermore, by 1999 the bank had already accumulated a series of international awards. These include the Euromoney awards for "Best Turkish Bank" (1995. 1996, 1997, 1999) and "Best Smaller Bank in The World (1999), the Financial Times award for "Most Respected Company in Turkey" (1997) and "One of the 50 Most Respected Companies in Europe" (1998), and Global Finance award for "Best Emerging Market Bank" (1999).

Prior historic analysis of its financial structure had clearly shown that the bank's funding and placement strategies changed significantly and consistently over the years. Prior to 1980, GB was indeed operating very traditionally. As was the case for any other bank in the sector, its activities mainly consisted of Turkish Lira denominated deposit collection and credit supply. Starting the second half of the 1980s and continuing throughout the

1990s, the bank has diversified its operations and established a strong presence in most new areas. Notably, these include foreign exchange and foreign trade-finance products, capital markets operations, and inter-mediation in inter-bank and international markets.

With respect to the indicators that were used in our previous quantitative analysis, GB represented a case with high and continuous change over the years, and the direction of change was stable. The amount of change was especially high during the 1990s, i.e. the extended period of liberalisation. YKB on the other hand, represented a case with significantly less amount of change over the same period, but direction of change was also unstable. In other words, although there was relatively less change evident, its direction in some of the variables varied from one period to another. Appendices 5 through 7 provide a comparison of the two banks with regard to amount of change.

7.1.3 Case Study Setup

In view of the above explained selection criteria, the case study setup was envisaged as follows. The two banks represented important differences with respect to both institutional power and extent of change. These are exhibited in Table 7.4.

Table 7.4

CASE FEATURES - I		
	YKB	GB
Institutional Power	Anchored within core	Move from (semi-)periphery to core
Extent of Change	Little change	Substantial change

Our major objectives were to understand:

(1) If and to what extent our quantitative archival research findings on the extent and scope of change in business templates would be supported by a more comprehensive and in-depth investigation of aspects of business template,

(2) How and why YKB could remain within the core without a substantial change of banking template, while the industry was undergoing substantial social, regulative, and competitive changes,

(3) How and why GB could reposition itself from the (semi-)periphery to the core by implementing changes in business template, and

(4) To what extent and in which specific ways the two banks' interactions with their external context reflected shared versus unique patterns and led to shared versus unique strategic and operational adjustments and explain why this was so.

Addressing the above-mentioned questions, we aimed to unravel different aspects and types of organisational change as well as the perseverance of certain organisational traits.

As will become clear in the following chapters detailing our case analyses, the in-depth data collection and analysis have actually revealed additional insights (see item (1) above), leading to certain adjustments to the above-presented case characteristics. First, it became clear that it was not entirely correct to categorise YKB as merely a case of "little change", but rather as a case of "less change". There were certain important implementations of strategic and operational change, which had (and could) not been revealed by our prior (pre-case study) quantitative analyses. At the same time, it also became evident during the more in-depth study, that GB, whilst exhibiting important strategic and operational changes, was actually also trying to strengthen capabilities in more traditional or conventional domains and so to preserve its original strategic identity and operational style.

Such additional insights led us to reinterpret the original case study setup as in Table 7.5.

Table 7.5

CASE FEATURES - II		
	YKB	GB
Institutional Power	Anchored within core	Move from (semi-)periphery to core
Extent and Scope of Change	Lower and smaller	Higher and larger
Major Objective	Maintaining power and dominance	Increasing power and gaining dominance
Nature of Change	Initially proactive, then reactive	Initially reactive, then proactive

7.2 Data Collection and Analysis

Interviews were conducted with six senior-level managers at Yapı Kredi Bank (YKB) and with seven at Garanti Bank (GB) in April and May of 2002. (See Appendix 8 for a list of the interviewees, their position at the time of research, and previous functions and experience with the bank.) The interviews were semi-structured, but conducted according to the interview protocol prepared in advance (see Appendix 9), and all were tape-recorded. A broad range of topics was covered concerning firm- and industry-specific developments and the relationship between the two, corresponding to the components of business template and external and internal context (i.e. enacted environment) as shown in Figures 7.3 through 7.5 further below in this section. However, the detail and accuracy of information was inevitably higher on developments concerning the more recent past, i.e. the extended period of liberalisation.

Figure 7.3

COMPONENTS OF HOLISTIC WITHIN-CASE ANALYSIS

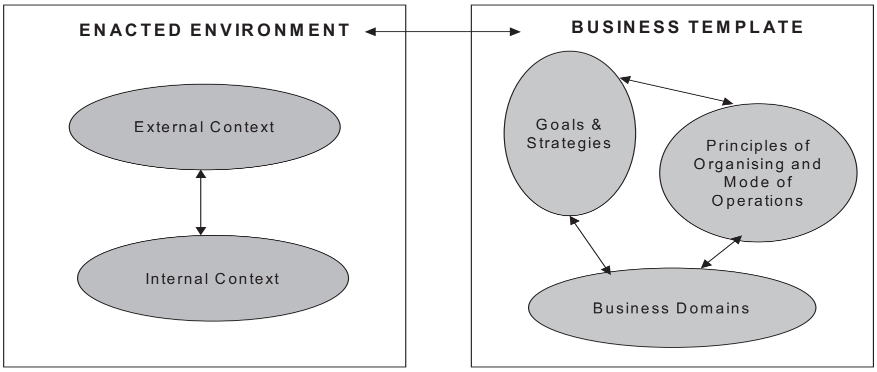
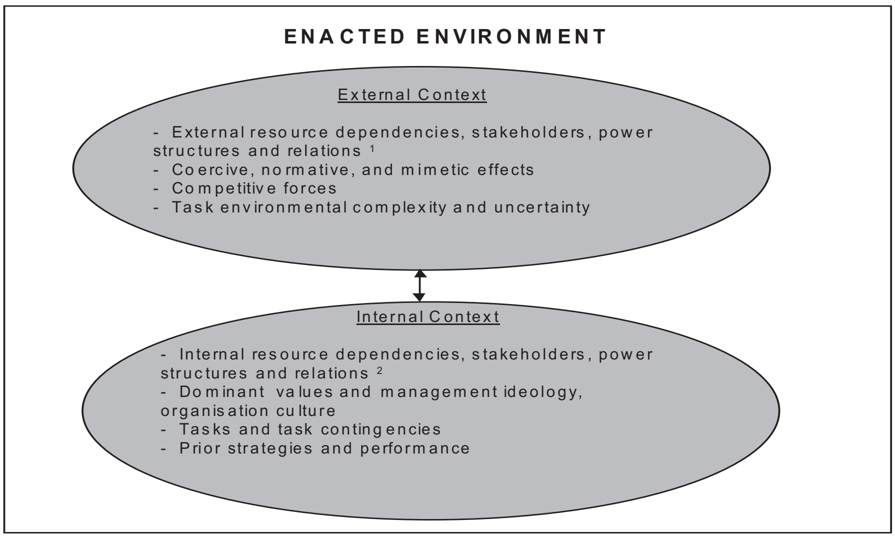


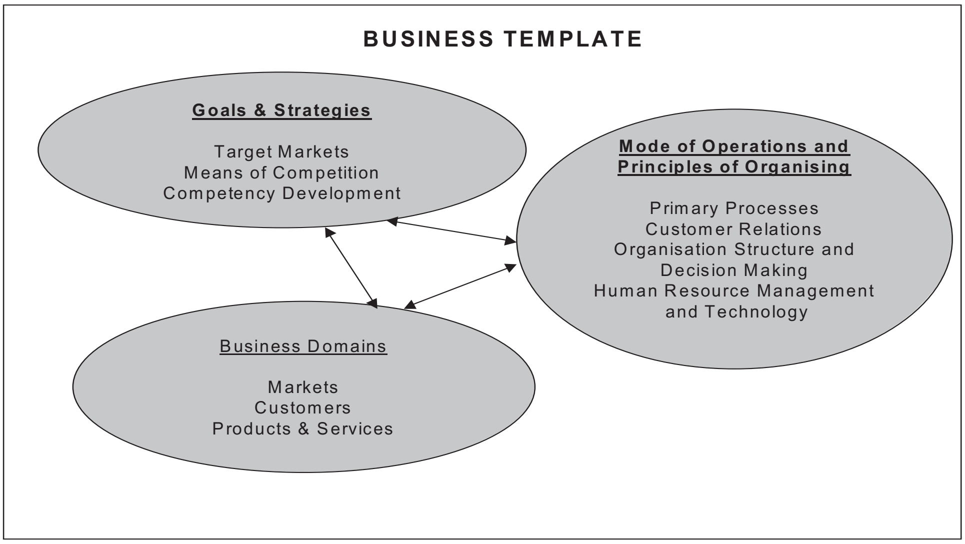
Figure 7.4



1. These include the role of major suppliers and customers (i.e. individual consumers, small, medium, and large firms, multinationals, group firms, the state, and other local and foreign financial institutions), capital providers (i.e. major shareholder and other local and foreign investors), regulators (i.e. state regulatory agencies, international regulatory agencies, and the banks association), labour force supply, and technology and know-how providers (i.e. technology alliances and consulting firms),

2. These include the role of major shareholders, different management echelons, different functions and functional groups, different types of know-how and expertise, human resource qualifications, and the like.

Figure 7.5



Interviews varied between one-and-a-half and two-and-a-half hours in length and all were tape-recorded and subsequently transcribed verbatim by the researcher. The questions changed slightly from one interview to another, depending on the position and experience of the interviewee, the information gathered in earlier interviews and the types of responses obtained during each interview. Thus, the interviews were person-dependent, and evolved during and between interviews. The dialogue between the researcher and the interviewees was smooth, rapport was well established and the interviewees were quite open and cooperated well. The previous work experience of the researcher in the banking sector was an important factor contributing to mutual dialogue and the establishment of rapport, especially because all interviewees were experts in their field. Another important factor contributing to the quality of the interviews was the researcher's prior research on each bank. This consisted of an analysis of archival quantitative data available as well as the collection and studying of other publicly available material. These were annual reports, documents available in banks' own internet sites, and other news and interviews that had been published in the media. In addition to the initial interviews, the researcher was also given the opportunity to clarify additional issues by e-mail and additional company documents.

As mentioned earlier, the historic nature of the study had put some limitations on the selection of interviewees. As a very limited number of managers were available who had a sufficiently long experience with the pertinent organisations, we did not have the possibility of finding interviewees with exactly the same background across cases. In view of potential problems this could cause for data interpretation, utmost attention was given to cross-checking different sources of data, in order to assure reliability, validity, and consistency. This meant that the entire process of case analysis and interpretation was iterative, rather than linear. It involved continuous "triangulation" between information collected from different interviewees, between interview transcriptions and other company documents and publicly available information, and between qualitative and quantitative data.

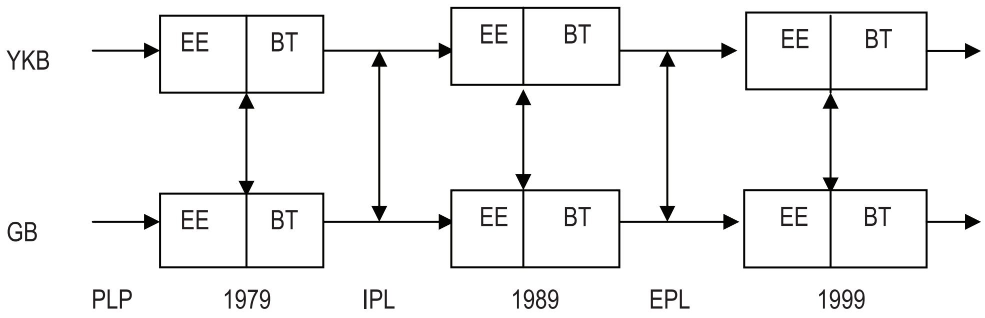
We have to remark that the case reports were written so as to reflect the rationality of both the actors as well as the researcher. In other words, the researcher has directly reflected the actors' rationality where and whenever she was convinced that this was the most reliable, accurate, consistent, and valid presentation of "reality". In other instances, when for example confronted with inconsistencies and/or gaps between different sources of data and/or different individuals' remarks, the researcher has tried to re-interpret the available information through her own lens. Ultimately, it was the researcher who had to make sense of different pieces of data, some of which reflected the actors' (subjects) own way of sense-making and others more factual information. Efforts have been made to explicate in the final report, the details of interpretation, triangulation, and re-interpretation process, including a discussion of alternative interpretations and reasoning, whenever contradictions appeared among different evidence.[35] However, in general, such explicit detail was omitted in favour of direct presentation of strong and plausible evidence, in order to prevent an overcrowding of the report.

During the analysis as well as writing the final report, there were two major considerations. First, each individual case had to be interpreted as holistically as possible so that we could understand the synchronic and diachronic interrelations among components of business template and external and internal context (enacted environment). Figures 7.3 through 7.5 display these components and the investigated interrelationships. Secondly, we also had to be able to determine and explain cross-case similarities and differences in terms of each of these analytical components and in terms of their synchronic and diachronic interrelations.

These two considerations mean that three kinds of analysis guided this stage of study: (1) analysis of each bank's evolutionary path (including the effects of earlier decision and actions on subsequent ones), (2) comparative cross-case analysis of business templates and enacted environments, and (3) comparative cross-case analysis of paths of evolution. These can be depicted roughly as in Figure 7.6.

[35] E.g., Sections 9.5, 10.1, and 10.6.4 (qualitative vs. quantitative evidence); Section 10.2.2 (reconciliation of interview with quantitative evidence); Section 10.4.4b (reconciliation of interviewee opinions); Section 8.1 (interview vs. company documents).

Figure 7.6 COMPONENTS OF OVERALL ANALYSIS



PL = Pre-Liberalisation Period
IPL = Initial Period of Liberalisation
EPL= Extended Period of Liberalisation
EE = Enacted Environment (External and Internal Context)
BT = Business Template (Goals, Strategies, and Mode of Operation)

In order not to compromise on any of these two considerations, we have conducted both kinds of analysis. First, two separate historic single-case studies were conducted, with within-case analyses of synchronic and diachronic interrelations of the above mentioned analytical concepts. Second, between-case analyses of the same concepts and the synchronic and diachronic interrelations of these resulted in comparative results. The final case report as presented in this book is a hybrid presentation of the two approaches.

In Chapter 8, major similarities and differences between the two banks in the pre-liberalisation period will be presented and some explanations will be provided. In Chapter 9, we will present the two banks' paths of adjustment during the initial period of liberalisation, followed by a discussion of similarities and differences in adjustment process and its outcomes and the explanations for these. Chapter 10 will present the paths of adjustment during the extended period of liberalisation, followed by a discussion of similarities and differences in adjustment process and its outcomes and the explanations for these. In each chapter, we will specifically address the questions of change and inertia as well as isomorphism and differentiation. In the last chapter (Chapter 11), we will compare and contrast the findings in these three chapters with the results of the macro study and provide our final conclusions regarding the overall study.

Chapter 8

Comparative Analysis at the Pre-Liberalisation Stage

8.1 YKB and GB before 1980: Continuous Growth, Geographic Expansion, Little Differentiation

Before the onset of economic reforms and deregulation, YKB and GB were both enjoying like most other industry participants the benefits of a comfortable business environment. As the rest of the sector, both had a basic commercial banking style, engaged in only basic monetary inter-mediation from households to firms as well as among firms, and providing few basic monetary services for both of these groups. With their deposit dominated funding business, diversified deposit customers, and (commercial) credit dominated funds placement business, they exhibited almost identical banking styles, despite significant difference in organisation sizes and some in the quality and quantity of available resources. Operating in the same markets with the same products, both banks actually represented quite typically the standard commercial banking practice and institutions of the time that were quite isomorphic. Both had a growth (physical and geographic dispersion) oriented retail-banking strategy and had so developed an important deposit collection capability.

At that time, the most important mechanism of resource generation leading to competitive advantage and market power in that comfortable business environment was geographic expansion and branch network growth. This was a competitively and socially legitimate business act, which was also mimetically spurred and had become almost a professional norm for national (as opposed to regional) banks at that time. A large deposit-collection capability derived from a large retail network was a critical resource and implied greater power vis-a-vis fund providers.

YKB's geographically dispersed branch network had expanded continuously in the 1960s and especially 1970s, going up from 137 branches in 1963 to 282 in 1969 and 577 in 1979. [36] Such a high and continuous growth of organisation size was not unique to YKB. During the same period, GB had a similarly high rate of branch network and personnel growth. Up from 56 in 1963, its branch network had reached 128 in 1969 and 254 in 1979. Most national banks were then doing the same, as this was the only way of collecting as much customer deposits as possible at negative real (i.e. inflation adjusted) interest rates. This can be considered as one of the few critical success factors in those days. In the words of a YKB interviewee (S.A.), "it was a very comfortable business environment. There was no intensive competition, inflation was not really causing much problem, there was no external audit requirement and banks' financial records were far from being accurate / realistic. (Standardisation of financial statements and external audit requirement became effective in 1986.) All large retail banks had 500 to 700 branches spread through the country. YKB had nearly 600 branches, Akbank had more than 600, and Is Bank more than 900. As competition was not that intensive, branch founding and closing was not that visible. Banks had opened a branch in almost any town that had a population of larger than 5000 people. They wanted to be present all over the country, in all cities. It was such chaos. YKB was not any different in that respect." According to a GB interviewee,

[36] The available branch data does not go further back than 1963.

Sul.Kar., "with interest rates set by the central bank at levels below inflation, all banks had to do was to set up as many branches as possible in order to collect deposits at negative interest rates. An important source of income was also the DCM (deposits convertible to foreign exchange) accounts specifically designed by the state for attracting deposits from Turkish workers abroad. This had caused banks to open branches in the most remote corners of the country, in places where the families of such workers were living. It was easy to make money through such accounts because these were subject to state guarantee on exchange rates."

Given the highly labour intensive working conditions in those days, the growth rate of personnel closely corresponds to the rate of growth in branch network size. Between 1961 and 1979, YKB's personnel had grown from 2589 to 10467. GB's personnel had grown from 770 in 1961 to 3921 in 1979. Again, such was not unique to YKB and GB, but the four-fold increase in YKB and the five to six-fold increase in GB were significantly higher than the three-fold increase in the total number of branches in the entire sector. (Appendix 10 displays the developments in branch network and personnel size of the two banks over the entire period of analysis.)

YKB's heavily deposit dominated funds portfolio (72%), credit dominated placements (40% excluding loans to banks), and loan interest dominated revenue composition (67%) during that period indicate a predominantly 'simple' commercial banking style that was common in the sector. However, the persistently higher than industry average values in these respects also reflect a strong and persistent commitment to core commercial banking activities. Furthermore, the share of commission and fee income within the stream of revenues was far from being insignificant, indicating also a non-negligible commitment to service provision. Of course, the credit portfolio was virtually consisting of commercial credits only. Consumer credits did not exist in the sector in those days. With slightly larger weights of deposits (76%), credits (41%), and loan interest (72%) in funds generation, funds placement, and total revenues, respectively, GB also exhibited the same 'simple' or basic banking style. (See Appendix 6 and 7 for more detailed information and comparison.)

A few characteristics were however pointed out as differentiating YKB from its peers even in those days. YKB managers proudly speak of the bank as "the most customer-oriented bank in Turkey throughout its lifetime." Its life-long motto being "service has no limits" (this motto had initially been verbalised by YKB's founder Kazim Taşkent and stayed alive and in active use up to the present time), customer orientation, superior customer service, and proactive behaviour are cited as deeply rooted, persisting principles and elements of corporate culture. In E.A.'s own words, "YKB has attached great importance to service quality since the day it was established. This can be traced back in Kazim Taşkent's (the founder's) speeches: 'Customer is king.' This mentality has never changed. YKB has always been providing the best and highest quality service. Before 1980s, when the banks had the same interest rates for deposits and loans, the customer was choosing the bank on the basis of service quality."

In the words of S.A. (current board member), "YKB had significant characteristics differentiating the bank from its competitors all the way through. Even long before the 1980s, YKB was actively pursuing (seeking, visiting, and negotiating with) customers when no other bank was doing any of these. It was clearly more [pro-] active than other banks. It was trying as hard as possible to become the house-bank of its customers. It was giving his managers specific goals to activate, push forward and make them work harder."

Along with this deeply rooted customer service orientation, another differentiating aspect of YKB's banking activities during this strongly regulated banking era was (according to the same interviewee) its early involvement with international commerce 'markets' and products. Quoting S.A., "from the 1970s onward, when foreign trade first started to emerge/grow, the bank became the largest provider/mediator of foreign exchange into Turkey."

Along with such characteristics, which then were allegedly differentiating YKB from the mainstream, the same interviewee also stressed that, "YKB's corporate culture from the very beginning on included leadership, courage, and pro-activeness, persisting up to the present time. The major shareholder has changed, but this attitude has not."

Before proceeding with a discussion of later periods, let us just also consider highlights from additional information in publicly available company documents concerning the important events in the pre-1980 period (see Appendix 11).

Although the early involvement in credit relations with tradesmen, villagers, and artisans in a certain sense denotes a long-standing experience with small businesses, it is not clear at all if such were of any significant amount. As this was not mentioned in the interviews as a special characteristic of the bank in those days, it is likely that such were of an insignificant scale. Furthermore, it is more likely that YKB was only first among private banks to engage in such relations. This is because, at that time, there already existed a few state-owned banks that were specialised in credits for farmers, artisans, and other small business owners.

A similar concern applies to education loans. It is not clear if this was of any significant amount, because in the interviews it was stressed that there existed no personal loan business except the small amounts of "professional assistance credits".

Although the use of the computer that was introduced in 1967 would possibly be very limited in practice, such leading behaviour concerning the use of new technological applications can still be considered significant. The same argument applies to the formation of the first "electronic banking centre" in Turkey in 1978. We have no information regarding the first-time use of 'personal' computers, but the first-time use of widespread "computer-system" takes place around 1982-84, denoting the very first steps for office automation.

These and other aspects of leadership that are mentioned in the above table, along with what the interviewees had to say point out at somewhat proactive or 'innovative' approach to banking. In such a highly regulated business environment that was presenting little opportunities for choice and in the absence of significant amount of competition, which also meant little deterministic forces at work, such behaviour stands out as being somewhat unique. Its possible implications for the later life stages of YKB will be later discussed in greater detail.

In contrast, GB was a more (self)-contained, "inwardly oriented" organisation, content with an average market performance and company image and not making any special effort to pursue customers. In the words of Sa.Ku., GB in those days was "a deposit collecting organisation, opening branches all over Anatolia, not because of a certain project, but rather because a certain board member had certain ties with/in a certain place.

… [But at the same time], it also had very close relations with small and medium-size commercial customers (businesses) throughout Anatolia –a long history of good relations. … The Bank had a deep credit culture, a traditionally strong competence in [commercial] credits."

8.2 Interpreting Isomorphism and Variation at the Pre-Liberalisation Stage

In order to explain the isomorphic banking templates of YKB and GB, we can look at three important aspects of the comfortable business environment. These were (1) *Ease of resource generation* without organisational and strategic differentiation (i.e., favourable resource dependence relations), (2) *Resource homogeneity,* and (3) *Simple tasks* (task environment). Of course, the underlying (common root) cause of these three features was the then in place *economic and financial regulations*.

Regulatory (coercive) interference with interest and exchange rates was working for the benefit of banks, creating an abundance of zero- or low cost resources. This kind of regulatory interference was causing a definite resource advantage for banks causing an unequal power balance in favour of banks against fund providers, mainly the depositors. Because the main basis of competition was branch network expansion and only to a minor extent the quality of services and not pricing and new product development, banks were enjoying an unequal power balance also against fund users, mainly the credit clientele. Also, competition was mainly restricted to competition for branch network expansion. New entries to the sector were restricted by regulation, therefore rare, prices were controlled or fixed, and there were a restricted number of products and services that banks could provide to their customers. The main mechanism of competition was physical growth, i.e. branch network expansion, and the branch network the major resource. Furthermore, low inflation and fixed interest and exchange rates also meant little business uncertainty and risk. The primary process of a bank being risk management, together with the absence of sophisticated banking products and services, meant simple tasks and a simple task environment. Also, the absence of detailed and strict regulatory requirements and controls such as precise financial requirements and independent audit control was also contributing to the simplicity of tasks and the overall comfort banks were then enjoying. All in all, regulatory or coercive interference was primarily working for the benefit of banks, simplifying their tasks and creating very favourable resource dependence relations.

There also remained however some important differences between the two banks. YKB had built an absolutely very large distribution (retail, branch) network through an above average physical growth (geographic expansion) over the years, had so achieved an above average growth in deposit collection and therefore also an above average financial growth. In comparison, GB had been a more modest player, with a medium size retail (branch) network that had an average growth over the years, and therefore an average growth in deposit collection capability and average financial growth. Institutional conformity together with an average but sufficient resource generation capability had enabled GB to remain as an ordinary but viable player in the sector. YKB on the other hand had become a more dominant player by combining institutional conformity with a significantly larger resource generation capability, but by also differentiating itself from its competitors through "service quality" and "proactive customer relations". In other words, although the same markets were being served with the same and limited variety of simple products and services, there was some room left for differentiation, and that was in customer interface and the delivery process. The prominent share of service commissions and fees within the revenue composition should be seen as an important indicator of special competence and success in service provision as opposed to basic financial inter-mediation. But, it also implies more that that. In fact, if the bank had not been able to generate excessive financial resources in this manner, it would not have been able to enhance its physical resources, i.e. branch network, that were critical for continuously superior market success.

It must however be mentioned that the superior market success that is described above pertains to the capturing, maintaining, and enlarging the bank's absolute share of the market (in terms of total revenues, profits, and assets). Otherwise, both firms' performance was more or less the same, if revenues (and profits) are measured against the totality of the physical resources, i.e. the size of the branch network and total personnel) employed in their generation. Indeed, acting according to the prevailing institutional norms of the day, GB was able to generate an average but sufficient amount of financial and physical resources. In combination with sufficient capability of dealing with simple tasks and a simple and stable task environment (lending competence and credit culture), was more than enough for an average market performance and share.

In comparison, YKB's additional market success was due to some additional capabilities (company specific institutions and resources), which no doubt also contributed to its ability to generate a greater amount of financial and physical resources. These had to do with the extra or specific company culture and social capital the company was making use of, which can be traced back to the unique role (imprinting effect) of its founder and major shareholder. Differentiation through customer (external) orientation as well as service quality, and through proactive customer pursuit and relationship development, were all qualities owed to his own individual business values and mentality. The same applies to also the unique emphasis on management by objectives and on technological development and innovation (though naturally of a quite small scale at that time). These core values and the accompanying personal power lie at the basis of both the unique company competence and additional capabilities (capabilities in addition to competence in lending, i.e. in customer relations and service) and the specific company culture. Having been transformed into high quality service and therefore good reputation and image, these two kinds of social capital gave rise to a third one, namely, an established name in the sector.

In contrast, the more ordinary or average image and reputation of GB as an average service provider were both a cause and a consequence of the absence of such social capital. The internal orientation and the self-contained company culture (absence of social capital) were partly (to a large extent) responsible for satisfaction with average service and average image and reputation (also deterring the generation of social capital). At the same time, satisfaction with being just an average service provider was only natural in the presence of sufficient lending competence in such a simple task environment and in the absence of significant competition. This was especially because the bank was primarily dealing with smaller businesses in more rural areas.

Let us review the major patterns of inter-relationships that are explained in the above section and try to interpret the reasons for similarities and differences between the two banks by a synthesis of resource dependence, institutional (and contingency) theories.

The overriding theme appears to be isomorphism. The reasons for isomorphism are manifold and mostly interrelated, but their common root is the regulative context. Firstly, it is responsible for favourable resource dependence relations, which contributes to the ease with which banks can generate resources, which in turn eases business viability and performance. As such circumstances would create little need for competing through differentiation, isomorphism becomes a likely outcome. As it also limits the complexity of tasks and reduces the scope of important resources and the mechanisms of competition to a single dimension, there remains actually only very little room for differentiation, thus giving rise to highly similar competitive strategies and acts.

Having said that the overriding picture was that of isomorphism, it needs to be said that there remained some minor openings for differentiation. Despite little need and little freedom for differentiation, this cannot be ruled out completely. Depending on management philosophy and values that lie at the root of company culture and capabilities, differentiation can be possible through whatever small opening. This in turn can contribute to additional resource generation abilities.

As a last word in this section and as a more general statement, it can be said that the interplay of external institutional context and internal institutions (company specific institutions) forms the underlying dynamics shaping in the first place the resource dependence relations and ultimately the extent and scope of isomorphism and differentiation.

8.3 Conclusions

1. *Overriding theme at the pre-transformation stage is isomorphism.*

   Main or direct causes:

   1) *Ease of resource generation* without organisational and strategic differentiation (favourable resource dependence relations).
   2) *Resource homogeneity*.
   3) *Simple tasks* (simple and stable task environment).

   The underlying (common root) cause of these three features was the then in place *economic and financial regulations*.

   Altogether, these three main features led to ease of organisational performance and effectiveness without necessitating much organisational differentiation, which in turn implied isomorphism.

2. *Even though being of minor importance, some differentiation nevertheless accompanied isomorphism.*

   Main cause:

   Company-specific institutions (management philosophy, values, and company culture) favouring the development of *company-specific resources and competencies*.

At a more general level and as an extension we can state:

(1) The external context was having a strong isomorphic push (pressure), i.e. pushing the firms in the same direction.

By the external context, in the first place we imply the more *immediate resource and task environments*, which had a very direct effect on organisational practice. However, it was ultimately the more *general institutional environment* that was shaping the resource and the task environments and having an indirect yet overarching effect on organisational practice.

(2) The internal context was having some differentiating effect, i.e. pulling the firms apart.

By the internal context, in the first place we imply *the company specific resources and competencies*, which had a direct effect on organisational practice. Again, it was ultimately *company specific institutions* that were shaping the company specific resources and competencies and having an overarching effect on organisational practice.

Chapter 9

Initial Period of Liberalisation (1980 – 1990)

9.1 YKB during 1980-1985: Ownership Change and Initial Strategic Adjustments during Early Years of Economic Liberalisation

After taking full control of YKB, Çukurova Group also appointed a new general manager in 1984, who was an external transfer from another privately owned domestic bank, but possessed international educational and work experience.[37] According to S.A., "it was under his leadership that YKB makes a leap forward." During his office as general manager at YKB (1984-1987), this person was able to introduce the concept of consumer (personal) banking to the bank lay its groundwork. This was not only an entirely new line of business for YKB but also an entirely new concept for the Turkish banking sector at that time. In E.A.'s words, "during H.Özyeğin's post as YKB president, the conviction was established in the bank that there was a significant potential for consumer / personal loan business in Turkey calling the banking system to address this need." The actual implementation of this new concept became possible in the second half of the 1980s, in 1986-1987, eventually making YKB the first-mover in the sector in that regard. Yet, the year 1984 is still significant in terms of the origination of this major new idea and goal, which would later prove to be of great strategic importance for YKB as well as the entire banking sector. It might not completely be right to speak of 'innovativeness' in the true sense of the word, as the concept should not be considered as a real innovation, given its applications in other parts of the world. However, its proponent and initiator can be considered to be an "institutional entrepreneur" of sorts, given the novelty of the concept for the local banking environment.

The period between 1980 and 1985 also denotes a stop to the growth in YKB's branch network.[38] From the year 1984 onwards, which corresponds to the aftermath of the buy-out by Çukurova Group and the appointment of a new general manager, the bank's branch network actually starts to slightly shrink for the first time in twenty years.[39]

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[37] The first Turkish national with a Harvard MBA degree.

[38] The network size reaches only 584 branches in 1985, indicating only a minimal increase in comparison to 577 in 1979. The first peak in branch size was reached with 596 branches in 1983.

[39] A slightly different pattern applies to personnel size. Here, the first peak is observed with 10892 people in 1977. The total number of personnel drops to 9002 by 1981, corresponding to almost an 18% cut over four years. As was mentioned in an earlier footnote, this drop in personnel size might be associated with the possible entry of new board members in late 1970s. Although we have no definite evidence, such would be a likely consequence of the overtaking of (a large number of) shares by three business groups. We then observe another small rise in 1982, just before the definitive move by Çukurova to get full control of the bank, followed by a drop to 8871 employees in 1984 in the immediate aftermath of this same event. These lead us to think that this prolonged process of ownership change must have had definite consequences for personnel policies, especially because the downsizing of personnel appears to be unrelated with changes in branch network size. The later cut that took place in 1984 however also coincides with the appointment of the new general manager.

It is also during the same period that the bank takes the very first initiatives for geographical expansion beyond the domestic boarders. It opens six representative offices abroad in 1980 (New York, London, Zurich, Frankfurt, Cologne, Munich), two additional offices in 1982 (Stuttgart, Hamburg), and a branch in 1983 (Bahrain). Some of these locations are cities where a sizeable Turkish population lives, representing a significant deposit potential. Others are among the major financial centres in the world, providing a link to international fund sources as well as contributing to commercial activity potential notably in international trade.

In this same period, we also observe important initiatives concerning technology. It was already mentioned that YKB had established in 1978 the first "electronic banking centre" in Turkey. In S.A.'s own expression, "YKB is also the first bank to introduce office automation, computer system replacing manual operations in all branches."[40] Although we have no specific information on the exact nature and scope of these initial activities and their exact implications for working conditions in the bank, the following seem to be among the likely results.

Firstly, in 1984, YKB becomes the first bank in the sector to start establishing and using an on-line branch communication system, i.e. an electronic communication mechanism connecting branches with each other and with the head office. This is a significant development in its own right, with possibly important implications for the speed and quality of branch operations as well as overall communication and co-ordination mechanisms. The above-mentioned downsizing of personnel is for example possibly at least partly related with the automation process. Secondly, these also denote a critical step in the development of the necessary infrastructure for introducing consumer / personal banking, which at that time emerged as an important goal. Thirdly, they also signify the groundwork for a continuous process of development of a number of other complementary technological applications in the second half of the 1980s and the beginning of the 1990s. These will be discussed further in the next section.

As was already mentioned in the previous section, S.A.'s opinion regarding the reasons for such leadership attitude and first-mover behaviour in terms of applying new technologies and developing business products had stressed a strong role of the belief system. Re-iterating his own expression, "YKB's corporate culture from the very beginning on included leadership, courage, and pro-activeness, persisting up to the present time. The major shareholder has changed, but this attitude has not."

However, the corporate mentality and attitude expressed in the above remark does not incorporate the entire story. His words had continued as follows: "Let's always keep in touch with the West and keep an eye on what they are doing there. Should any of these be applied in Turkey, let us be the one to do that first here in Turkey. Such has always been part of the [company] culture."

Pro-active, innovative, leadership behaviour within a local sphere can entail monitoring, mimetic, followership behaviour at a more general level. Such is certainly the situation

[40] A separate organisation under the roof of a separate legal entity (a subsidiary) was also established in 1982 and assigned the responsibility for the maintenance and development of the bank's computer systems. Bilpa Information Systems Inc. converted to Yapı Kredi Technology Services Inc. in 199?

here, YKB being a receptive and swift transfer agent rather than an ‘innovator’ in the full sense of the word.

The direct association of the swift adoption of novel business applications with the culturally rooted mentality of leadership and pro-activeness is not unreasonable. Such new business applications seem indeed to be result of an internal drive for leadership behaviour as opposed to being prompted by an external force in the immediate business environment. In that sense, such can be interpreted to be closely associated with the higher amount of choice opportunities brought about by de-regulation of financial markets in general and the freeing of interest rates in particular. Although the same process of liberalisation also led to the entry of new firms into the sector, notably a few foreign banks in the early stage during the first half of the 1980s, the potentially higher level of competitive pressure that this might have caused does not stand out as a major factor contributing to change in YKB’s strategic behaviour.

In S.A.’s expression, “[T]he real dynamism in the sector occurred in the second half of the 1980s. Foreign banks enter the sector over the 1980s, but these were banks with a single branch or two, three branches in Istanbul, Ankara, and Izmir. These were mainly American banks coming for mainly the purpose of examining the Turkish context and for the surveillance of the credits granted by their head office. These have never been in a position to put their mark on the Turkish banking sector. They remained small. And they were especially small in the 1980s. They neither represented a threat nor brought in any major innovation in the 1980s.”

There is quite some truth in the statement that the entry of such foreign banks did not lead to any major increase in the competitive intensity in the sector. This is mainly due to the small scale of their operations, initially geared for mainly servicing the multinationals operating in Turkey (and gradually also targeting the largest domestic firms). It was not until the second half of the 1990s that a few of these foreign banks, notably Citibank, starts to enter the consumer / personal banking segment. It is somewhat normal that large retail banks’ with a large and diversified customer base such as YKB would have been affected little by these specialist banks’ presence. However, given their expertise and intensive involvement in foreign trade products, it is not entirely clear how a bank such as YKB, which claims to have had a strong presence in the same business segment even in those days, did not perceive any major threat in that respect. Furthermore, this particular interviewee’s opinion that foreign banks were not bringing in any major innovation to the sector also needs to be examined a bit further. This is because the same interviewee also stated that an American banker, who was transferred from Citibank’s Turkey office, was the one, who set up YKB’s consumer / personal banking department during (roughly) 1986-87. Because consumer / personal banking was not an area in which Citibank Turkey was active in those days, it is understandable why the interviewee does not consider this a major aspect of knowledge transfer. However, it still constitutes an important detail about the foreign role in knowledge diffusion.

9.2 GB during 1980-1985: Initial Turmoil

The period between 1980 and 1985 denotes also a stop to the growth of GB branch network.[41] A slightly different pattern applies to personnel size. Here, the first peak is observed with 4370 people in 1975. The total number of personnel drops to 3417 by 1984, corresponding to about a 20 % cut over nine years.

In this period, GB takes also the very first initiatives for geographical expansion beyond the domestic boarders. It opens three representative offices abroad in 1980 (Dortmund, Stuttgart, Zurich), two additional offices in 1982 (Nürnberg, Rotterdam), and one in 1984 (London). Most of these locations, especially where the first openings took place, were cities where a sizeable Turkish population lives, representing a significant deposit potential. Unlike in the case of YKB, the opening of a branch at a major world financial centre, was not immediate, but three years later.

In this early period, GB actually had a few original undertakings, which were unique in the sector at that time, but did not make an immediate and large impact on it.

One of these involved work re-organisation at branch level, more specifically the introduction of the "super teller" concept (before the bank was acquired in 1983 by Doguş Group). This had meant the elimination of functional differentiation among tellers (i.e. division of labour and task specialisation in terms of deposits, credits, foreign trade, and a few other supporting functions). With this project, the bank was the first in the sector in eliminating the cashier function in branches and in enlarging the task variety of tellers, authorising these to undertake a variety of banking transactions including the handling of cash. This was the first example in the sector of a process change in a bank branch.[42] The most immediate result of this transformation was an average of about 50% reduction in branch personnel (in more than 400 branches) and the reduction in customer waiting time from 30 to 3-5 minutes. This was mainly a result of the elimination of a number of hierarchical levels (of transformation to a more flat branch hierarchy) and of related bureaucratic procedures inside the branch, while delegating authority to the tellers at the front and enlarging their task scope and variety. It was so radical a change that in one day the personnel of a major branch at the heart of one of Istanbul's commercial districts were reduced from 93 to 31. This was at a time when no computer was available and all recording was taking place manually.[43] This very first organisational renewal decision had actually taken by a new, "young and bright" general manager[44], who stayed with the bank just about one year.

Another important initiative taken in the early 1980s (in 1983-84 and right after Doguş Group had purchased the bank) was the first-time application of international accounting standards, when there was no legal requirement to do so in Turkey. GB was the first Turkish bank to do that and to get a full scope financial audit by an international audit firm.

[41] The network size reaches only 282 branches in 1985, indicating only a minimal increase in comparison to 271 in 1980. Also GB reached the first peak in branch size (with 297 branches) in 1983 (same year as YKB).

[42] Most banks introduced this kind of branch reorganisation in the 1990s and later.

[43] It must however be noted that, despite elimination of functional differentiation among front line tellers, product / service based differentiation within the highly operations loaded branches continued until the introduction of portfolio teams and centralisation of operations.

[44] Another young professional with a Harvard MBA degree.

Both of these undertakings represent important structural and process changes at that time, each with different short and long-term consequences. Although having important positive effects on branch efficiency, the radical branch restructuring also had important negative implications in terms of employee morale, due to large cuts in personnel (note the numbers mentioned above). The experience of such a radical shock is considered as one of the major reasons contributing the general resistance to organisational change efforts taking place later. These will be discussed in the following section in this chapter and in the next chapter. In contrast, the early implementation of international accounting standards, while having no major effect in the short-term, represents an important organisational capability that was going to make a major contribution to the bank's resource generation capacity in the longer term. This will also become clearer in the next chapter.

Apart from these two initiatives there was no other important initiative taken by GB during the period 1980-85. The major reasons given by the interviewees for this relative organisational inertia were twofold. Firstly, since 1975, the bank had been under the joint ownership of two largest business groups in Turkey (56% Koç Group and 33% Sabancı Group) until it was fully acquired by another major business group (Doguş Group) in 1983. Because there was hardly any consensus on important decisions between the two groups, the bank was not able to take any important initiatives until after it became wholly-owned by a single party. Secondly, the first three years after the acquisition in 1983 by Doguş Group also marked a very unstable period in terms management, with three changes in the general manager position. Only after the appointment of Ibrahim Betil as General Manager in 1986 (who stayed in that position for five years), the bank was able to start a gradual but more stable and persistent process of adjustments. This period will be discussed in the next section.

9.3 YKB during 1985-1990: Pioneering Changes and Further Differentiation in a Period of High Growth and Intensifying Competition

One of the interesting facts concerning YKB is its relative swiftness in moving into new territories of banking in late1980s, which until then were unknown to banking customers in Turkey by supporting these with new technologies. The bank can rightly be claimed to be the pioneer in introducing consumer banking to the Turkish banking sector in late 1980s and early 1990s. It was the first-mover in major consumer products such as consumer loans (personal, automobile, and home mortgage) (1988), debit and credit cards (1988), insurance on credit card purchases (1988), automatic teller machines (ATMs) (1989), point of sale terminals (1989), and accounts with overdraft facility (1992). In addition, YKB was also similarly swift in developing new capabilities for inter-mediation in capital markets. It was the first bank facilitating automated trading of capital market instruments (1987) as well as the international trading of stock and bonds and issuance of asset backed securities (1992). Almost with no exception, all interviewees at YKB consider the bank's relatively early entry into such new market segments as an important indicator of the bank's innovative / entrepreneurial capacity, of its historically strong commitment to core / fundamental banking activities, and of its customer orientation.

Although the general manager / president (H. Özyeğin) initiating the introduction of consumer / personal banking leaves YKB in 1987 to form his own bank, the replacing general manager / president (B.K.), who was also an external recruit, continues those efforts. S.A. describes this particular episode as follows:

"It was H. Özyeğin, who introduced consumer / personal banking to Turkey. He is the one who pushed the button. He created a separate department. In the West, banks had ATMs (automatic teller machines), they were issuing credit cards, there were personal bank accounts with an overdraft facility. He pushed the button for YKB to introduce such things to Turkey. People came over from Citibank, teams were formed, an American banker with significant experience in consumer / personal banking came over and set up the consumer / personal banking department. This individual was the only permanent externally recruited manager for this project. Additional knowledge transfer took place through temporary project support / consulting teams coming from abroad. However, after hitting the button and before seeing the completion of these efforts, Özyeğin left YKB and founded his own bank. Then B. Karaçam [the replacing general manager] came and showed great ownership for that initiative, for that department. He believed that there really was a niche with a great business potential and opportunity, wanted to utilise it and provided great support to that department for the realisation of that goal."

This constitutes a counter example to the commonly observable relationship between discontinuity in top management and disruption of business projects. The persistence of that particular process can possibly be explained through two complementary phenomena. One of these must have been the similarity of business mentalities of these two managers, leading to a similar perception of opportunities present in the business environment.[45] The second must have been the often-cited innovative and receptive company culture. Of course, in either case the full support of the owning group would have been essential, which apparently was the case. Even if the initiative had been at an irreversible stage by then, problems in any one of these respects would have otherwise caused at least a delay in the completion of the project, which apparently was not the situation.

The same individual views this pioneering initiative as a successfully thought out deliberate move in a context marked by an entirely different business mentality and customs. In this individual's words, "many banks were at that time making huge investments in high yield government bonds and treasury bills, enjoying the very profitable margins between government borrowing rates and inflation. [46] They were acting rather as a savings corporation as opposed to doing modern banking, providing modern banking services. YKB on the other hand has been very alert. Thanks to B. Karaçam's enthusiasm for the project, YKB became the first bank to introduce credit cards, personal loans, accounts with overdraft facility and automatic teller machines. There were a few small banks providing some of these services on a very small scale, but YKB was the first bank ever to introduce these on a national scale, through its entire branch network. Before other banks could even realise what really was going on, YKB was able to capture the lion's share, about 40%, of the (credit card and ATM) market.

[45] Note that before joining YKB these two had also worked together, B. Karaçam as H. Özyeğin's deputy, during the latter's presidential tenure manager at the bank where he previously worked before moving to YKB.
[46] It was during the second half of the 1980s that the government became an important client of the sector. A huge increase in domestic government borrowing was realised in this period.

This created dynamism in the sector, with others gradually following YKB's direction[47] However, YKB always retained its lion's share in this segment and is still enjoying the benefits of that."

Another interviewee (Se.Ka., assistant of the general secretary) has put it as follows: "the introduction of personal loans happened when there was even no legal framework for such loans. It was the first bank to introduce real credit cards. There were cards, but without a credit mechanism, that is, you were not able to pay your debt in instalments. The first mutual funds, the first automatic teller machines, all these were introduced by YKB. It has been very innovative during the 1986-1990 period. The bank was constantly introducing new products and services that the others were finding it very difficult to follow."

This individual too, has stressed, "YKB has a long time avoided investing in government securities and favoured credit relations with the industrial and commercial sectors over this. Credits have constituted almost one half of YKB's total assets. [48] And it has been especially active in export credits. Almost 70 to 80% of its credit portfolio has consisted of export credits."

Even though the introduction of the new business line (consumer / personal banking) and the accompanying investments in the technological infrastructure meant a huge increase in costs, the advantages realised through this move were manifold and overweighed the those. S.A. puts it as follows:

"YKB has made huge investments. It has been the most important client of IBM. But as a result of that, YKB has been able not to depend on a few capricious large customers. It has been a bank with hundreds of thousands of small customers, the highest ratio of demand deposits[49] in the balance sheet, and a highly diversified loan portfolio. Thanks to personal banking, YKB has become a bank with an exceptionally high amount of service fees and commission income. At a certain time, our service fee and commission income had become equal to the total of the following three banks. With a branch network three times as large as ours when put together, they were generating the same amount of service fees and commission income. YKB has been able to minimise dependence on interest income. In most banks, service fees and commission income do not even meet the annual personnel expenditures. Everything depends on interest and foreign exchange income and expenditures. We have been able to generate fee and commission income much in excess of our personnel expenditures."

For the important events marking this particular period, including the above-discussed pioneering steps, see Appendix 11.

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[47] The initial reaction of the competitors was actually somewhat resistive. E.A. remarks: "YKB has had a good foresight of the future when introducing consumer / personal banking to Turkey in 1986-97. The banks, which today seem having realised that consumer / personal banking is the only way to go forward, were saying that it would raise inflation and destroy the financial markets, when YKB president first expressed the word consumer / personal banking."

[48] Our analysis had indicated a 40% weight of loans (loans to industry, not including loans to banks) in total assets except in 1989, when it was about 30%.

[49] Bearing no interest, demand deposits are considered a great advantage in terms of generating zero-cost funds. In a country like Turkey, where double-digit inflation has been the norm for a very long period of time, these constitute an especially critical resource.

In this period we observe that YKB's branch network reaches its historic peak in 1989, albeit by a minor expansion. The difference between 584 branches in 1985 and 598 in 1989 represents only a small increase in the total number of branches. This denotes an extended period of stability in terms of geographic presence, from the beginning to the end of the decade.

We also observe that YKB expands its overseas facilities by opening one additional representative office in Duisburg in 1986 and two in 1989, one in Berlin and one in Moscow, and a branch in Düsseldorf in 1990. The major goal in opening a bureau in Moscow before even the collapse of the communist block in 1990 must have been associated with mainly the growing presence of Turkish construction firms in the Soviet Russia of those days.[50]

The rise in the number of employees from 9008 in 1985 to 10656 in 1989 represents however a significant (over 15%) growth in work force. This growth interestingly occurs during a period when the branch network remained stable. Furthermore, it takes place despite a certain amount of automation was brought in through automatic teller machines. This suggests that the need for additional personnel must have been associated with rising business volume, especially, but not only, in consumer / personal banking. This would have caused a significant increase in the number of smaller customers and transactions, necessitating the employment of additional human resources for customer service as well as for operations. Furthermore, the use of new electronic banking technologies such as on-line communication and transaction systems would have called for the employment of additional technical support staff. The increase in business volume would have not only been because of the establishment of this new business line. The high level of general economic growth and especially the growth in foreign trade would have also meant increasing number of customers and transaction volumes in the commercial banking segment. This would also have required at least some expansion of human resources in this area.

Before proceeding with the discussion of the following era, it might be worthwhile to provide a short description of YKB's organisation structure by the end of the 1980s (see Appendix 12).

The overall organisation structure was a hybrid, combining functional, target market / client, and geographic division of tasks and responsibilities. There existed nine different functional units, each under the responsibility of a specific vice president (assistant general manager). Four of these units actually also represented four different business lines / divisions, that is, retail commercial banking, wholesale commercial banking (corporate banking), consumer banking (personal banking) and investment banking.[51] The differentiation of commercial banking activities in terms of retail and wholesale customers (i.e. an additional target market / client based differentiation) as well as the establishment of the consumer / personal banking division took actually place in 1988.[52] This increasing

[50]Construction sector has been one of the major growth engines of Turkey's 'exports' over the 1980s and 1990s, and construction companies have always been important customers of YKB. Such firms in general constitute a good customer for banks especially in terms of non-cash loans such as letter-of-guarantee.

[51] Firms with an annual turnover of $ 15 million considered as corporate banking customers, those below as retail banking customers.

[52] According to E.A. "the bank had introduced about 1988 a differentiation between retail commercial banking and wholesale commercial banking (corporate banking). Later a third line,

horizontal differentiation was natural in the face of increasing diversity and complexity of markets, clients and products. Within each business division and functional unit, there was functional departmentalisation. The geographic division of responsibilities involved the line authority of fifteen different regional managers. It is not clear from the annual report to whom these regional managers reported, but it is likely that these were directly reporting to general manager / president, even though they did not have a vice president / assistant general manager title. We can safely infer that in terms of credit approval authority, the line of command included the regional management level and that regional managers were responsible for credit analysis and approval as well as all banking operations. According to B.Y., "each region in itself was like a small independent bank. Funds management was central, that is, fund flows were [handled] centrally. There [in the regions] was somebody responsible for deposits, somebody responsible for credits but nobody responsible for the customer. … Credit decisions were taken jointly by a given regional manager, the general manager, and the credit committee."[53] As can be inferred from this remark, it is possible to speak of further functional differentiation within each geographic division. The same was also the case within each branch. Operations management constituted a central function at both branch and regional level. The line of command within operations management function entailed a further division of authority within each regional office for smaller sub-regions consisting of three to five branches. It is clear that the increasing geographic differentiation of responsibilities also implied an increasing differentiation of authority, resulting in a finely differentiated authority structure. Given that hierarchical differentiation was also extremely fine-grained within each branch (according to Se.Ka., "the branch hierarchy consisted of eight different levels including the following positions / work titels: branch manager, assistant branch manager, second manager, functional unit manager, supervisor, assistant supervisor, authorised worker, and worker."), it is possible to speak of a highly steep organisational hierarchy.

As an overall conclusion, it would be appropriate to state that horizontal and vertical structures were both quite complex. Horizontal differentiation entailed a combination of functional and market/client (business line) based division of responsibility at the top and functional and geographic differentiation of responsibilities in the middle and at the bottom of the steep organisation hierarchy. Ceteris paribus, this is quite as expected, given that we are speaking of a large and diversified organisation with a complex set of tasks and a complex task environment.

9.4 GB during 1985-1990: Trying to Overcome Inertia

Attention to external developments and openness to change was mainly due to the changes in key managerial positions undertaken in the second half of the 1980s. The externally recruited new top management was behind what is called the "new customer- and market-oriented strategies and practices" by the interviewees and its "increasing involvement in and connections with international markets". Starting with the general

consumer / personal banking, was added, making it a three-fold differentiation, that is consumer / personal banking, retail commercial banking, and wholesale commercial banking." The 1988 annual report includes all three of these divisions.

[53] This actually is a quite dubious remark. The interviewee actually uses the word "independent" not in the sense of "independent authority and decentralised decision making". What he actually means is possibly that each regional division was involved in and responsible for all types of banking processes except overall funds-flow management. The question about the extent of (de)-centralisation is not addressed sufficiently and remains open.

manager, external recruits were strategically selected and placed in pivot positions leading marketing (the marketing function was first created in 1986-87), human resources, and treasury (and later in the 1990s also technology functions). In order to cater to the increasingly more sophisticated needs of businesses and consumers in a market, which was becoming increasingly more versatile and competitive, there existed a great urge to be quick in enhancing and improving competencies. The overriding goal and strategic priorities became diversification of markets and products, closer customer contact and aggressive marketing (to be followed in the 1990s by superior customer service and efficiency in operations).

Ibrahim Betil's term as general manager (1986-1991) is considered to be the period when the first effective changes to the bank's strategy and operations were put into effect. Sa.Ku. considers the recruitment of Ibrahim Betil as a very wise decision by Ayhan Şahenk (Şahenk family / Doguş Group is the owner GB since 1983). She refers to Şahenk as "a visionary person, who understood very well that, in order to be successful, he needed a good manager open to international developments. He understood well that international ties were extremely important and intentionally chose Betil, a graduate of Robert College" (which is the present day Bogazici University, still an American institution at the time of Betil's graduation). Following his own recruitment in 1986, Betil's initial acts include the recruitment of pivot people to pivot positions. Akin Öngör was recruited with the mission of establishing the marketing department (such a department did not exist before), Sa.Ku. to lead the human resources (in 1988), and A. Acar to get in charge of the treasury (in 1990), all of which considered as wise decisions by Sa.Ku.[54]

The initial market and marketing directed efforts included the establishment of a marketing department at the headquarters in 1987-88, which consisted of sector managers responsible for customers in a given sector throughout the country including customer visits. Customer visit became an "official concept and systematic application", branch managers were pushed very hard to be actively engaged in that process. The very first of a series of business mottos used to verbalise the basic management philosophy behind the change projects was "customer is a star". The only person responsible for sales was the branch manager, but this was not actively pursuing customers. When this organisation became highly insufficient for handling customer relations, additional marketing / sales people were recruited and assigned to branches and were made responsible for actively seeking customers.

In Sa.Ku.'s words: "Betil and his team for the first time in bank's history considered marketing an important function, knew how to establish a credit line and get funds from abroad, and showed it to the bank. Up until then, the bank's operations had mainly consisted of classic operations such as collecting deposits, doing spot transactions, etc. Traditionally, the bank had very close relations with small and medium-sized commercial customers throughout Anatolia, a fifty years history of good relations. But trade finance and other international banking operations were almost non-existent. Betil and Öngör together took off the GB' s dirty, old jacket. They established marketing units in the real sense of the word at the headquarters, recruited people, and assigned marketing personnel to branches (and to regional offices) with the responsibility of finding customers and extending the customer orders to the kitchen. An aggressive marketing-oriented system was created, ending a period when branch managers would be sitting in office waiting for customers to come in. For the first time branch managers were expected to do customer

[54] These two people became the next two general managers of GB after Betil.

visits and were rewarded nicely in return through a company car and with extra bonuses for gaining important customers. Even Öngör and Betil would from time to time join the branch managers in their company visits. Customer focus became the driving force of the bank along with international relations. Akin Öngör was delighted of having turned the customer into a person with a name and a segment, which until then was only a number in the eyes of the Bank."

According to Sul.Kar., Öngör was also the person who introduced a different and more risk-tolerant business mentality to the bank. In his words, "Before Öngör, the primary concern of the bank was not to loose money, not to take any risk. But, if you are not prepared to lose any money, you also cannot make any money. If you don't take any risk, you may earn two liras without loosing anything. If you take some risk and make four liras but loose one lira, you are better off. He brought that kind of mentality. He taught that kind of calculation and reasoning. He taught the bank that a reasonable amount of risk must be tolerated in order to make larger volumes."

However, while trying to bring in an external and market orientation, the new General Manager and his new management team (Marketing and Human Resources) mixing with the old team of management (with managers of all the remaining functions) also clashed with the existing company culture and faced significant internal resistance. They persisted to change this through human resource renewal by way of high personnel circulation (turnover) and a stream of very elaborate training programs. According to Sa.Ku., in those days, everyone at the bank headquarters was a transplantation (from another bank) except the manager of the credits unit.

Changing the culture of the company took a lot of effort by the new managers whom the "real/original/native Garanti Bankers" initially had labelled as the "parachutists", who were considered as "transitory intruders to leave the bank sooner or later". The former was a group of employees connected with strong ties. The "immense cohesiveness" of employees and their strong attachment to "their bank" was an important obstacle for implementing the renewal projects. According to Sa.Ku., the manager who took charge of human resources then, the bank she had found in 1987 was "too self-confident and self-satisfied, an introvert organisation with great disregard for practices in the outside world, but which had tremendous internal communication". But this was a woman who had been transferred (together with her right hand who had become responsible for the Training and Education Unit) from a highly visible and "modern" smaller wholesale bank.[55] (Even Sa.Ku herself considers her recruitment by Betil "a very courageous step, considering how tough it would be to take away a woman like her from such a bank".) Considering this, her initial experience with the company culture should not be very surprising. However, it becomes clear that there was more to it if we also consider how that company culture had emerged and shaped as well as the kind of drastic shock it had gone through previously.

According to Sa.Ku., in the past, it had been a common practice in the bank that each new assistant general manager would recruit people from the town where s/he came from. Furthermore, the 'right hand / confidant' of one of the founders of the bank, had been managing human resources in her own peculiar way from the seventies onward. In Sa.Ku's words, "her legendary way of human resource management, including the organizing of beauty contests and wedding parties, distributing gold, the promoting of

[55] From an old private bank, which had been acquired by Çukurova Group and was reinventing itself as a wholesale bank.

good-looking women or those with strong close personal relations with herself etc., had created an immense employee loyalty, attachment, and coherence in those times. These were after all people with only a high-school education at most."

But Sa.Ku. was also careful not to attribute all problems to the existing company culture. The drastic shock that the employees had experienced only a couple of years ago was another important factor contributing to their resistive reaction. In her words, "the bank was also a wounded organization, which had gone through a serious workers' syndicate problem in 1981 as the first and only bank in Turkey. This happened at the time when a 29 year-old, Harvard educated general manager was put in charge, who cut branch personnel to one fourth in a period of three months. This man came as a huge shock for the bank, he was too much ahead of Turkey in those days."

The then introduced recruitment system and the rather avant-garde management trainee program, which all interviewed managers proudly speak of, are considered as one of the two key forces (the other being technology renewal) behind the subsequent successes of the bank. When Sa.Ku. and Z.B. for the first time tried out to run such a program at Interbank, they were among the pioneers in the sector along with other wholesale banks. They were now trying to do the same at GB, but other banks were also quick in adopting the same approach.

The increasing ability of the bank to attract, recruit and maintain a different kind of personnel is to some extent reflected in the extent of change in the human resource profile. In the following ten years, the average age was going to drop from 40-45 to 30. At the same time, the percentage of university graduates was going to rise from less than 10% to 70% (in 1985 there were as few as 20-25 university graduates working at the bank headquarters). Also, the percentage of foreign language speaking personnel was going to increase from less than 10% to 30%. Providing an extensive six-month training, three months in-class and three months on-the-job, the bank was recruiting a huge number of new college graduates from diverse backgrounds, about 150-250 each year. According to the same interviewee, "upon the completion of the program, the trainees were in a position to understand the bank's language and expectations very well, even though their educational background were quite diverse." The program is considered very successful compared to most of other banks' programs, because, according to the managers then in charge, the program had a "sound methodology" for measuring the trainees' success, with specific examinations and a close control of job performance. Measurement and appraisal of trainees' success was an important element of the program, an element that was often overlooked and omitted in other banks. Another reason for the drastic change in personnel profile is the instalment of an "avant-garde" "goal-dependent" performance appraisal system, which is also partly responsible for the drastic lay-off measures taken in the early 1990s.

The rise in the number of employees from 3437 in 1985 to 5179 in 1989 represents a very substantial (over 40%) growth in total work force. Taking place during a period when the size of branch network remains more or less stable, this large growth is actually associated with the recruitment of large numbers of new and more qualified personnel. It however represented only a temporary situation that was going to be reversed in the following years (see 1990-95) as a result of lay-off of older and less qualified personnel.

Accompanying the process of renewal of personnel and its credentials, a significant reduction took place in hierarchical differentiation. When Sa.Ku. came to GB in 1987, there were thirteen levels in the hierarchy.[56] Very smoothly and gradually, not giving entrance examinations for certain levels, Sa.Ku. streamlined the levels in the hierarchy, ultimately reducing these to seven.[57]

Before proceeding with the discussion of the following era, it might be worthwhile to provide a short description of GB's organisation structure by the end of the 1980s (see Appendix 12). The overall organisation structure was mainly a functional structure, with ten different functional units, each under a specific senior vice president (assistant general manager), including also some geographic/regional differentiation at a lower level (much less differentiated than YKB – seven regions as opposed to fifteen at YKB). As an overall conclusion, it would be appropriate to state that, at GB, horizontal and vertical structures were both much less complex, in comparison with YKB. But this is normal given the large differences in branch network and personnel sizes.

In this period we observe that GB's branch network reaches its historic peak in 1990, albeit by a minor expansion. The difference between 282 branches in 1985 and 301 in 1990 represents only a small increase in the total number of branches. Very much like at YKB, this denotes an extended period of stability in terms of geographic presence, from the beginning to the end of the decade. We also observe that GB expands its overseas facilities by opening additional representative offices in Vienna (1987), in Düsseldorf (1988), and New York, Moscow, Hannover, Paris, and Jeddah (1989). GB's opening a bureau in Moscow before even the collapse of the communist block in 1990 must have also been associated with mainly the growing presence of Turkish construction firms in the Soviet Russia of those days (very much like in YKB's case).

It must have become clear that GB was at that time, unlike YKB, still busy putting the house in order and laying down the infrastructure that was needed for functioning in a more complex and complicated business environment. Apart from the above-described human and organisational changes, the only other important initiative taken was the introduction and partial application of on-line communication and transactions.[58] However, the actual goals of Betil, the residing general manager, were much larger. In 1988-1989, he was literally pronouncing the names of the three industry giants, Akbank, YKB, and occasionally Isbank, as their primary competitive target; Akbank, because of having the most reliable image, and YKB because of its successes in consumer banking. Furthermore, another ambitious target was becoming the best bank in Europe within the next ten years (which was actually partially realized).[59]

[56] These were: Cashier/Teller, Servant (Memur), Assistant Supervisor (Sef Yardimcisi), Supervisor (Sef), Assistant Specialist (Uzman Yardimcisi), Specialist (Uzman), Assistant Manager (Mudur Yardimcisi), Manager (Mudur), Senior Manager (Ikinci Mudur), Group Manager (Grup Muduru), Assistant General Manager (Genel Mudur Yardimcisi), General Manager (Genel Mudur), and Board of Directors.
[57] These were: Assistant (Asistan), Specialist ('Yetkili'), Assistant Manager ('Yonetmen'), Manager (Mudur), Assistant General Manager, General Manager, and Board of Directors.
[58] Only between one-third and one-half of the entire branch network had on-line connection so-far.
[59] The bank was actually chosen the Best Smaller Bank in Europe by Euromoney in 1996, 1997, and 1998.

9.5 YKB and GB during Initial Period of Liberalisation: Comparison of Paths of Adjustment during 1980-1990

Our preliminary quantitative analyses had indicated that both banks had in this period some business diversification, through increasing presence in new banking territories. Their funds generation had remained deposit dominated, but both had more diversified deposit customers. Their funds placement activities became more diversified, with presence and activities in money, capital, inter-bank and international markets. It was evident that they both were trying to operate as a universal bank with special emphasis on commercial banking. Both had more diversified revenue composition, with the only major difference between the two banks being the extent of service commission and fees. This difference had initially not struck us as a potential indicator of YKB's unique strengths in consumer banking in this earlier period, because higher than industry average service commission and fees within the revenues stream had been an important characteristic of the bank also in previous periods. Through the qualitative analyses we came to realise, that the persistence of such strength was closely associated with YKB's ability to explore and innovate and to introduce advanced consumer banking products and services.

So, whereas our preliminary quantitative analyses had indicated a moderate amount of change in both banks and predominantly isomorphic banking templates during the initial period of liberalisation (see Appendices 5 through 7 for details), through the qualitative analyses we became able to discern YKB's differentiation strategy and activities. In other words, isomorphism between the two banks was indeed less than it had appeared through the quantitative variables used earlier, and this was because of the higher amount of change on the part of YKB than had become evident through those analyses. It actually was already in this relatively early period, that the two banks began to look more different mainly due to YKB's quick response to changing regulations and its utilisation of greater choice opportunities. We observe that it was indeed a core bank, which was able to rapidly differentiate itself from the mainstream of the industry through leadership, innovation, and core organisational changes, i.e. first time and widespread application of major technology and product innovations.

The regulative changes brought about in the early 1980s by the economic deregulation programme were multifaceted and had several important implications in terms of institutional, resource, and task environmental influence on banks.

The freeing of interest and exchange rates, bringing an abrupt end to the comfortable era of banking, emerged as a drastic institutional (regulative) discontinuity (shock). Its most important and immediate implication was that a large deposit collection capacity (large branch network) was no longer the most important resource for banks and the most important source of competitive advantage. (The size of branch network had started to become a burden, a too costly way of collecting money, and banks started closing down most of their unprofitable branches.) The continuous uncertainty and volatility caused by fluctuating interest and exchange rates also meant the emergence of greater task environmental complexity. Offsetting some of the effects of the diminishment of traditionally abundant resources were the new opportunities generated by flourishing international trade and growing government finance demand, two new resource spaces. Because of these new resource spaces and a regulatory regime that allowed the entry of a number of new competitors, a new species or form, i.e. that of small wholesale banks which predominantly got engaged with these two specific areas of business, was born. This meant a partitioning of resources between smaller specialist wholesale banks and large or medium sized retail banks or the generalists. Whereas the former almost exclusively made use of the new resource spaces, the latter group consisted of banks, which tried to make use of both the traditional as well as the new spaces.

Indeed, both YKB and GB have in this period also entered some of the wholesale areas such as the capital markets business and international trade finance and international banking, leading to greater business diversification. However, the large retail networks both banks were carrying could be used more effectively if they remained as generalists, i.e. diversified universal retail banks. This was indeed the strategy that YKB successfully pursued, while GB for some time had to struggle with an unclear strategy and identity, which can be described as a little bit of both kinds but actually none of the two in a true sense. In this more competitive new business environment, YKB based its competitive strategy on incremental but persistent product and technology innovations and leadership in entry into new retail markets. These can be considered as fundamental or core organisational changes. GB on the other hand, had to face an extended period of inertia (1980-87) and resistance to change, which eventually culminated in a major attempt for cultural transformation, strategic reorientation, and organisational renewal (1987-91).

According to the new YKB general manager (and his follower) in this new era of banking, consumer banking represented a “niche with great business potential”. This was an institutional entrepreneur who was able to catalyse the existing company culture of international openness and involvement and market leadership. Building on the adaptive capacity and learning capabilities of the organisation, he was able to introduce sophisticated consumer banking products and services, thus bring about major innovation and change in (enlargement of) core operational domains. He was a powerful manager, a competent autonomous professional greatly supported by the new and more concentrated ownership.

Although the strategy was based on inspiration from overseas (notably American modelling), it was a well thought out and successful business strategy, very well supported by widespread and rapid application of new banking technologies (such as online communication and electronic banking). By creating new markets and new customers, it helped YKB to diversify into more service intensive, retail areas of banking; it significantly contributed to enhancing service revenues, and also helped decrease dependency on commercial customers. This was very much in accord with the existing values and business culture at the bank.

The entry of foreign banks as wholesale-corporate bank specialised in foreign trade finance did not mean much of a threat to a large generalist retail bank as YKB. Moreover, these apparently did not have any mimetic or normative influence, but they clearly had some role in knowledge diffusion in consumer banking. In contrast, YKB’s entry into consumer banking, while creating a great resource advantage for itself, did cause a serious threat to competition (to other large and medium sized banks) as well as serving as a new model for them, spurring mimetism. Thus, two forms emerged that represented two new norms: specialised wholesale banking on the one hand as introduced by new entries (foreign and local) and diversified universal banking as introduced by YKB.

In comparison to YKB’s differentiation strategy and market-leadership in new banking products and services, GB’s behaviour and strategy in the earlier period can be characterised as rather inert. Although the bank eventually managed to offer the same products after a relatively short time lag, the initial absence of a customer or market oriented banking culture acted as a strong inertial force. This prevented a move to the forefront of the sector until almost 1992. GB had to go through an extended period of inertia (1980-87) and resistance to change, which eventually culminated in a major attempt for cultural transformation, strategic reorientation, and organisational renewal (1987-91). Otherwise, it would not have been possible to compete with the two different strategic groups or forms of banking, not truly belonging to any of these groups. Only after undertaking a lengthy process of organisational renewal between 1987 and 1992, did the bank overcome the initial cultural inertia.

While YKB was under way to reinforcing its strengths as a large universal retail bank building on its own entrepreneurial and externally oriented company culture, GB's new general manager and his new management team (notably marketing and HR) were mixing with the old people trying hard to bring in external and market orientation. Clashing with the existing company culture and faced with partial but significant internal resistance to change, these remained determined and persistent in their efforts to change it by human resource renewal through high personnel circulation (turnover) and training programs. This was seen as an important way out of internal power contests and a strongly static company culture. In this endeavour, they received great support from the new and concentrated ownership of the bank. The introduction of marketing and sales organisation, functions and tools, the "customer visit" concept and active customer pursuit were all results of these efforts. These were quite basic steps towards bringing in an external or market orientation or culture, but they were nevertheless the first necessary steps to take. Although the bank could still enjoy a solid asset and revenue growth mostly due to new business domains, i.e. capital market / wholesale business growth and perhaps also to new marketing efforts, YKB's entry into consumer banking was a serious threat to GB as it was to other large and medium sized banks who were relatively late to introduce new banking technologies as basic as online communication. Without the kind of capabilities, which YKB had acquired, the (stable) medium size retail network (branch network) could not live up to its older status as an important resource.

We have to mention that the diversification strategy and product proliferation, increasing task variety and complexity, stable large retail network (branch network) and international (geographic) expansion altogether were responsible for the increasing differentiation and complexity in organisation structure at YKB. In stark contrast, the organisation structure at GB remained relatively less complex despite the diversification into wholesale markets and somewhat increasing task variety. It still was a functional structure at both the overall organisation and branch level. However, given the relatively smaller size of the bank and the relatively lower task complexity due to the absence (late introduction) of consumer banking activities, the maintenance of a relatively simple organisation structure is normal.

The major patterns of inter-relationships that were addressed in this section and the interpretation of similarities and differences between the two banks' adjustment processes can be explained more thoroughly by a synthesis of resource dependence, institutional (and contingency) theories. The rest of the section builds on such an approach.

We observe that the changes in the regulative backdrop, which allow the actors to make use of greater strategic choice opportunities, are a necessary but not sufficient condition for differentiation and organisational variety to emerge. The immediate and direct effect of these was destroying the barriers and creating openings or access to new and different resource spaces. It is then up to the economic actors' preferences and abilities to utilise or not these new openings and this also depends on other organisational resources and capabilities, which the different actors have at their disposal. Some of the new spaces which were relatively easier to enter, such as the capital markets domain were actually accessed by a greater number of players, including also YKB and GB. Business diversification in that manner applied more or less to each of them and implies more or less an isomorphic process. However, it is the entry into spaces that are more difficult to enter that eventually leads to differentiation. On the one hand, it is true that the emergence of a new organisational species, i.e. of smaller new banks specialised in wholesale banking and capital markets, was a major process leading to resource partitioning. The complementary to that process was however YKB's entry into consumer banking, leading to the emergence of a more substantial differentiation or partitioning between the wholesale segment and a retail segment as a counterpart and in the true or full sense of the word. It has to be said however that such a partitioning process, while being the immediate outcome of differentiation efforts of institutional entrepreneurs which dare to tap into new resource spaces and gather the capabilities to do so, in the longer term it does not preclude isomorphic processes within each market segment.

Another important issue concerns the nature and extent of change. The role of peripheral actors in emergence of a new segment has already been explained. This is not a very surprising or counterintuitive phenomenon. The role, on the other hand, of an old core actor in bringing about a framebreaking change or innovation to the sector cannot be emphasized enough, as this denotes a more unusual phenomenon. For understanding YKB's ability to bring about such innovation, we only have to go back to what has been said in the previous section with regard to the characteristics differentiating YKB from GB and especially the relationship between management philosophy and company culture on the one hand and resources and capabilities on the other hand.

9.6 Conclusions

We can re-formulate the above-mentioned observations in terms of the following arguments.

1 *Overriding theme during and at the end of the initial period is variation (market partitioning and segmentation) at the industry level and differentiation at the organisation level.*

Main causes:

1) *Emergence of a variety of new resource spaces*.
2) *Complex task environment*.
3) *Company specific resources and competencies* (enabling entrepreneurial acts and innovation).

The underlying cause of the first two of these features was again (the changes in) *economic and financial regulations*. The underlying cause of the third feature was *company specific institutions* (management characteristics and company culture).

The first two features led to the emergence of openings or opportunities for differentiation, while the third feature enabled the utilisation of such opportunities for superior market performance.

2. *Though being of minor importance, isomorphism also existed in certain respects, both within and across different sub-segments.*

Main causes:

1) Existence of *easy-to-tap resource spaces* among the emergent resource spaces (i.e. the capital markets).
2) *Relative task simplicity* in those spaces.
3) *Mimetic and normative influences*.

The underlying cause of the first two features was again (the changes in) *economic and financial regulations*.

At a more general level we can state:

(1) Variation and differentiation is more closely associated with the application of more complex tasks and the generation and utilisation of more complex resources.
(2) Isomorphism is more closely associated with the application of less complex tasks and access to less complex resource spaces.

3. *Peripheral changes primarily take place in the periphery of the industry, whereas frame-breaking or core changes take place primarily in its core*.

This leads us to argue that core changes are more closely related with the ability to tap into more difficult-to-tap resources and markets and with more complex tasks than peripheral changes and are more difficult to bring about. However, company specific resources and competencies that are essential for differentiation (see above) and therefore also for core changes that differentiation naturally requires, can be found at the industry's core.

4. *Core changes are primarily associated with organisational differentiation and market partitioning, whereas peripheral changes are primarily associated with isomorphism*.

Core changes are more closely related with the ability to tap into more difficult-to-tap resources and markets and with more complex tasks than peripheral changes and therefore also more difficult to realise. The few organisations, which can manage to bring about such changes, would naturally be able to differentiate themselves from the crowd. By the same token, as peripheral changes are more closely related with the tapping of easy-to-tap resources and markets and with less complex tasks, these are more easily realised and more common and therefore associated with isomorphism. Such easier to apply, peripheral changes are more open to mimetic and normative influence.

5. *However, by core changes, we do not necessarily mean path-independent or radical changes.*

Core changes can very well be path-dependent changes, such as YKB's entry into consumer banking, where it could best utilise its huge retail network and established customer base, its customer relations and service competencies, and a strong name and image. Indeed, core changes are likely to be path-dependent changes, as these require the mobilisation and utilisation of core competencies, which are likely to have been developed over a long period of time.

6. *In contrast, peripheral changes are likely to be more path-independent, for the same reasons mentioned in item 5.*

Finally, some comments relating *inner and outer structuration* are also in place here.

Outer structuration

YKB: Initially, the external context / system provided very little choice opportunities. It was having an extremely constraining effect. Organisational actions were to a great extent determined through the external system, by the regulatory institutions in particular. Nevertheless, YKB was still trying to include in its action repertoire certain elements, which reflect some amount of freedom from the boundaries posed by the external system. Later, when the external system became less constraining by incorporating more choice opportunities for organisations, YKB was able to act to utilise those very effectively. By doing so, it was able to have a large effect on the external system and to shape it to a significant degree. YKB's reaction to changes in the institutional / regulatory context were to have far-reaching effects in the sector, spurring others to find other competitive responses.

GB: Initially, when the external context / system provided very little choice opportunities and was having an extremely constraining effect, GB's actions, like most other organisations' actions, were almost exclusively determined through the external system. Unlike YKB, GB was not able to include in its action repertoire elements that reflect some amount of freedom from the boundaries posed by the external system. Later, when the external system became less constraining by incorporating more choice opportunities for organisations, GB was still not able to act to utilise those very effectively. The reason for that becomes clearer if we look at the inner structuration process.

Inner structuration

YKB: In the above paragraph, we have said that YKB was trying to include in its action repertoire elements that reflected some amount of freedom from the boundaries posed by the external system. These actions were actually closely associated with the internal system features that had become institutionalised over the years. YKB predominantly was building on historic strengths, but not ignoring new and but complementary opportunities. By its actions, it was also further reinforcing those internal system characteristics. When YKB began to act so as to utilise the greater choice opportunities provided by the external system, it was not only shaping up the external system but also its own internal system.

GB: In the above paragraph, we have said that GB was not able to include in its action repertoire elements that reflected some amount of freedom from the boundaries posed by the external system. Thus, its internal system features that had been institutionalised over the years by its actions that had actually been almost exclusively determined by the external system. Exactly because of this, GB could also not become able to utilise the greater choice opportunities later on provided by the external system. It was not able to establish a smooth link between the past and the future by building on strengths. Change attempts were, initially interpreted by many, as a major break with the past of the organisation and gave way to resistance and clinging to the known past. And because it was not able to act so as to utilise such opportunities, it could not make, either, much of an impact on its own internal system.

Inner and Outer Structuration and Stability-Change

Based on the above described structuration processes, we can conclude the following. For change to take place, that is, for actors to act so as to produce non-identical outcomes over time, both external and internal system characteristics must present an enabling context for action. If these are present, appropriate action can in turn lead to changes not only at the organisation level but also at the external system level. Change was so produced by YKB. We have described the features of the external system that presented all banks with more choice opportunities, that is, enabled these to engender change if they choose to do so. We also discussed the important characteristics of YKB's internal system, i.e. the organisational institutions and resources, which enabled this bank to produce change. Because change depended on institutions and resources that were an outcome of past actions, it was path-dependent. In contrast, even though being presented by the external system with the same opportunities for greater choice, GB has not been able to make use of these, since its organisational institutions and resources were having a very constraining effect.

Inner and Outer Structuration and Isomorphism-Variation

In a similar manner, if the external system does not present much of a choice opportunity for actors, the likely outcome at the inter-organisational level is isomorphism. If on the other hand, sufficient choice opportunities are present in the external system, variation may or may not emerge, depending on the actions of the participant actors. As these are also shaped by internal system characteristics, the latter must also provide the actors the ability to act so as to engage in differing acts and so produce variation. Variation has been produced in this way by YKB.

Chapter 10

Extended Period of Liberalisation (1990 – 2000)

In this chapter, we will account for historically sequenced patterns of differentiation and isomorphism and distinguish a greater and more diverse range of strategies and activities than the literature does and we have done so far. We will derive and explain 'erratic' yet 'plausible' comparative paths in a period of maximal change and provide a more encompassing interpretation of paths of development.[60]

10.1 A short pause at mid-way

Our observations[61] indicated that YKB had been able to become a diversified universal bank emphasising, however, commercial banking in general, and consumer banking in particular. It was predominantly engaged in service-intensive retail banking with many small customers, but not completely ignoring investment banking-like wholesale business. It had become a prototypical generalist in the sector, which was however different from other generalists and the ones aspiring to operate as a generalist. It possessed the unique capability of providing advanced consumer and commercial banking products and relatively high quality service within the retail segment.

These unique qualities or strengths were very much credited to the powerful professional management, which had an innovative approach to banking, was competent, autonomous and very much supported by the owning group. The primary objectives of that management were the maximisation of commission and fee income (minimisation of dependence on interest revenues), minimisation of costs through low-cost funding (notably through demand deposits), and risk minimisation through a diversified loan portfolio and a large and diversified customer base. Its diverse, large, and relatively low cost resource base and its dominance in especially consumer banking, well supported with the right technologies and a large (alternative) distribution channel, were all important aspects of competitive advantage creation in the more complex and less certain business environment and responsible for YKB's good overall performance. But, how could YKB sustain the same level of business success in that dynamic environment while serving as a business model to others, and in a way, creating its own competitors? How long could the pay-offs of innovation and differentiation through consumer banking and the first-mover advantages persist under mimetic pressure?

From a certain point of view, it is possible to say that GB was also engaged in universal banking with emphasis on commercial banking.[62] It was also a generalist, combining retail

[60] Tables 10.4 through 10.8 at the end of this chapter provide a synopsis of this chapter.
[61] Observations laid out in Appendix 6 and 7 indicated diversified funds placement (money, capital, inter-bank markets, direct participation), diverse revenue composition, still including significant amount of service commission and fees, and deposit dominated funding business with diversified deposit customers.
[62] Observations laid out in Appendix 6 and 7 indicated that it had diversified funds placement (money, capital, inter-bank markets, direct participation), diverse revenue composition (with relative strength in foreign exchange transactions, but not in service provision), and a deposit dominated funding business with diversified deposit customers.

and wholesale banking, but emphasising the retail aspect. Based on quantitative data, we had concluded that their banking templates were quite similar at the end of 1980s (See Appendix 7), with the exception of YKB's stronger service orientation. Through a closer look at the qualitative data however, it is also possible to infer that GB was actually not yet a truly diversified bank in terms of products and customers, due to relatively little involvement with and limited presence in consumer banking, which constitutes an important dimension of commercial and retail banking. As an in-between form, GB's initial response to the changing external conditions was trying to survive by diversifying into wholesale banking territory (especially through the lucrative government finance business) and combining this with its existing, traditional, basic commercial retail banking capabilities. In other words, it mainly was supporting its existing business by tapping into the opened resource space in the wholesale investment banking (capital markets), but it was certainly not a specialist wholesale bank. It was trying to compete with a larger generalist such as YKB, which was very strong in consumer and therefore retail banking, with no specific strategy, competitive advantage, and specialisation except some historically strong presence in rural areas and ties with smaller business. It had a much less developed technology than YKB and was also struggling with internal resistance to external adaptation. The above-mentioned involvements and utilisation of new resource spaces had so far been sufficient for improved overall financial performance and an expanded market share in terms of assets and revenues. But, was that enough for sustaining performance in the more dynamic and competitive business environment that was taking shape?

Notwithstanding such important differences in business strategy and capabilities, both banks had a similar financial performance in terms of the amount of revenues per branch and per employee (see Appendix 5). In other words, if the difference in organisation size is considered, it becomes evident that both ways of doing business appeared to be effective in the short term, most likely, thanks to the new resource space openings. The two banks also had similar human resource qualities.[63] These featured moderate education levels, especially in comparison with some of the new wholesale banks, and moderate levels of human resource expenditures per employee. How could they then remain competitive in the longer term, in that complex and dynamic environment?

Was there, moreover a good fit between their organisation structure and strategies? YKB was operating with a very large retail network and personnel. GB's retail network was of medium-size and it was operating with a medium-size work force (see Appendix 5). Both banks had dispersed operational processes at branch and regional level. YKB had a very complex organisation structure. This entailed a fine threefold horizontal differentiation (functional, customer or market segment / business line based, and regional) and a very fine vertical differentiation or steep hierarchy. GB's organisation structure was less complex, featuring considerably less differentiation in terms of market segments / business lines as well as regions (see Appendix 12). This was normal, given its smaller organisation size, less diversified business portfolio, and less complex product and service portfolio. Furthermore, both banks were mainly operating with a centralised management and decision-making system, although YKB to some extent had decentralised credit decisions at regional level. Would it be possible for YKB to run its complex business effectively in that manner in the long term? And, how would GB be able to cope with higher complexity and dynamism with its relatively simple organisation structure?

[63] Percentage of university graduates: 42% at YKB (1989), 40% at GB (1991).

10.2 YKB during 1990-1995: Intensifying Competition and Mimetism – YKB under Competitive and Mimetic Pressure

10.2.1 Major Organisational Developments: Downsizing, Alternative Distribution Channels, and Automation

This is a period marked by a *drastic downsizing of branch network and personnel*. Between 1989 and 1992, within a period of three years, YKB reduced the number of its branches by almost 40%, then keeping it at about the same level until 1995[64] (see Appendix 10). The reduction in personnel between 1989 and 1993 represents a cut of nearly 30%, from that year onward growing again.[65] In 1991, the average age of YKB personnel was 34 years and only 37% of the work force had a university degree. By 2001, these would become 31 years and 53%, respectively. From this, we can infer that the layoffs must have mainly been associated with older and less educated personnel. It was actually also mentioned by S.A. that "those leaving the bank were either at retirement age or had a low performance." Similarly, the new recruits in the following years must have been younger and better educated individuals. This is normal given the increasingly more sophisticated work requirements over the 1990s.We have no precise information on the rationale of these radical steps, however the following factors can be included among relevant motives.

Firstly, the introduction of electronic banking services and the *growth of alternative distribution channels* constitutes an important factor contributing to reduced need for labour force in branches. According to S.A., the growing use of *automatic teller machines (ATMs)* as an alternative form of customer interface made a significant contribution in terms of pulling the individual customers out of the branch. Different from many Western countries, ATMs in Turkey have since their first introduction served a variety of functions beyond cash disbursement. These were equipped to facilitate a wide range of transactions including cash depositing, inter-account money transfer, buying and selling of stocks, T-bills, bonds, mutual funds, and so on. In that sense, ATMs were a useful instrument in taking over a significant work volume from branch personnel. Similarly, the introduction and growth of credit cards and *point of sale (POS) terminals*, the device used in credit card payments, may have contributed to the reduction of branch workload by diverting a significant volume of money transactions away from the physical to the electronic space. YKB's ATM network grew by more than five-fold from between 1990 and 1995.[66] Whereas the number of YKB branches and ATMs were roughly the same in 1992, the ATM network reached nearly three times the size of the branch network by 1995. [67] The number of YKB POS terminals quadrupled between 1990 and 1995.[68] The introduction of *telephone banking* in 1991 is also an important development. Although its actual use, according to S.A., generally remained limited to information inquiry and account balance

[64] Down from 598 to 363. Only one branch opened in Düsseldorf and a joint venture formed with the Russian Toko bank in Moscow to provide wholesale commercial banking services.
[65] Down from 10656 to 7643.
[66] Up from 167 to 910.
[67] It is important to note that in those days banks were not yet sharing ATMs and POS terminals with each other. Spurred by new technological capabilities in automation, a 'race' took place among banks to set up ATMs, a process which continued a long time despite enormous amounts of investments required to equip these machines with sophisticated software.
[68] Up from 900 to 3600.

control, more optimistic expectations at the time of introduction may have contributed to the motivation for downsizing.

Secondly, another process of automation was taking place in the accounting sphere. The implementation of a *computerised accounting system* in 1991 must have contributed to efficiency in record keeping operations in branches and reduced the need for labour also in this area.

Finally, cost saving through cutting down labour force and branch network was, probably, not only facilitated, but also necessitated by the new distribution channels and automated accounting. In order to compensate for the *large costs* of these investments to some extent, the management must have been motivated to cut back on other expenditures. This would have been critical in the face of intensifying competition, which was the case during that period.

10.2.2 Competitive and Mimetic Pressures

There are various connotations of competition, which need examination. Above all, the large increase in the number of entries to the sector had certainly raised the *competitive density* to a significantly higher level. Although most of the new entrants had a small organisation scale, the effects of their presence were still noticeable. In E.A.'s opinion, who had a long career in commercial credits, "there was some increase in competition after 1985, but this has grown to a much higher level after 1990; customers naturally benefit from such market conditions."

S.A. on the other hand, had an ambiguous opinion on the effects of the increase in population density, downplaying its importance but acknowledging its effects. This interviewee made various remarks on the subject of competition, some of which were demonstrating a perception of a significant experience of competitive pressure. We can infer from his remarks that *the main competitive pressure had not emanated from new entrants, but from existing large and medium-size banks, which had started to emulate YKB's strategies*. There were a number of aggressive followers, which in the meantime had entered the consumer segment with similar products and services. The following interview excerpts provide an overview of what YKB might have been experiencing at that time.

(1) "In the first half of the 1990s, the substantial open position profits (excess of foreign exchange funding over foreign exchange placements) generated in a few years motivated various business groups to own a bank. In those days, there were 60 banks, later 70. These included banks with only a single branch but also with 1500 branches. The total number of banks was high, but the total number of branches was not sufficient to meet the country's needs. We observe that various business groups taking over some of the smaller banks with a few branches. Why did they do so? For two reasons. First, in order to finance themselves [their own businesses]. Second, just for the sake of owning a bank, because everybody else owned a bank. Today, Turkey has the largest number of television stations in Europe, because each business group owns a television station. Without doing any feasibility analysis, groups started to own a bank, because this was an indicator of prestige. And all this was permitted [to happen by the regulators]. Until the middle of the 1990s. Let us say 1994. Open position [financing] kept going until then. In 1994, two days were enough in order for the profits realised during the previous three and a half years to

disappear. As you know, there were two major devaluations [of TL] in 1994. Banks were hit seriously. However, despite that crisis in 1994, Turkey [Turkish economy] was still growing in those days. There was no durable effect.[69] There was a major devaluation in January and another one in April, causing banks to incur millions of dollars of losses. Banks with large open positions were hit seriously, but others were not affected as much. After that, there was still demand for credit, demand for credit cards. Turkey was growing and had a young population. That [crisis] did not cause the banks to become more cautious, to take measures. Everything stayed same. However large banks did the following in 1994. They said, losses amounting to such a high percent of the total balance sheet were made in only a few days, let us at least close down some of our branches. YKB for example went down from 500 to 360 branches in 1994 crisis. It closed down its fringe branches, branches in rural areas, even if these were making no loss, and loss making branches in city centres. It has either closed them down or merged them with larger branches. It was also the first in the sector in that respect."

A short comment on this particular excerpt is necessary, before proceeding with the next one. First, according to this interviewee, YKB's decision to downsize its branch network was a result of the crisis in 1994. Our archival records pertaining to the number of branches of the banks had however indicated that YKB had closed down a substantial number of branches before 1994 (see above). In this important discrepancy between two different sources of information, we consider the official archival records more accurate and valid. Secondly, even though this particular interviewee's reconstruction of the branch downsizing process is apparently centred around the 1994 crisis, we can re-interpret his remarks on new entries to highlight the role of competitive pressures building up until the 1994 crisis. The branch network downsizing process at YKB, which according to official records coincides with the build-up of "unrestrained competition" vividly described in this individual's own words, may actually be considered as being quite directly associated with the same phenomenon. Such a view is also supportable by other statements of the same interviewee, which are put next, as well as the remarks of other individuals.

(2) "No matter how strong a leader you become by entering a new market and capturing 40% market share, others seeing you come after you. First they learn the business; then, they come up with more attractive instruments in order to capture some of your market share. They offer more attractive rates, even if these imply loss. For the sake of capturing and retaining customers. Our market share in consumer banking for example dropped from 40% to 27%. But, this is inevitable, with so many others entering the same market. This is not a rocket-science. You get the ATM installed. You pay a few hundred thousand dollars deposit to Visa or Mastercard. Of course, it took some time for them to [learn how to] provide all the details of customer service, the sending of credit card statements and so on, but eventually it happens. Other medium sized banks such as Garanti have entered this segment very aggressively. Some of the larger banks, and the medium-size banks which wanted to grow further by being more active in that segment, have inevitably [affected] our target customers. For example, if someone already had a YKB credit card, they automatically issued a card, without applying any serious procedure. When filling the limit of the YKB card, the customer starts using another bank's card. If another bank applies a lower interest rate, the customer may even prefer to

[69] According to R.Y., who was heading the risk management unit and a member of the economic research unit of the bank between 1991 and 2000, "the 1994 crisis was an important turning point. The period between 1989-1994, with the exception of 1991 [the economic downturn due to Gulf War], was a boom period for the [financial] system. During that period, there was a substantial capital inflow into Turkey. The 1994 [crisis] put a limit on that."

use that card.[70] The attacks of other banks have affected us a little, but they have never been able to take away our leading position. Even though they have more branches than we have. Is Bank is for example twice as big as YKB. Akbank has 550 branches, while we have 400. They were not able to destroy our leadership. From the 1990s onward, small banks tried to become mid-size, while mid-size banks tried to become large-size."

Although these remarks were apparently made for underlining the limited effect of competition on YKB, they can also be taken as evidence that the extent of perceived competition was not insignificant and this was not entirely ignored by YKB.

The following example told by R.Y., is another illustrator of competitive and mimetic dynamism in the early 1990s. In his words, "in Turkey, [banking] products are actually quite homogeneous and their market entry very rapid. In 1991, Burhan Karaçam [YKB president] and the general manager of IBM signed a contract for the Voice Project [telephone banking]. Before YKB started with advertisement for telephone banking, even though YKB was the only bank that had signed such a contract, and the contract ceremony had already been in the newspapers, six other banks started to advertise the same thing. They all were announcing an eccentric telephone number with similar digits. The product was introduced very rapidly. The market conditions were however so favourable that it was possible to act beyond economic rationality."

As can be seen in the overview of the major events during 1990-94 in Appendix 11, YKB's innovative implementations were not restricted to the <u>*maintenance of the product proliferation process in consumer banking*</u>. Applications reflecting an important <u>*capability to utilise international borrowing and investment mechanisms*</u> were among these. In order, however, to maintain and further develop its success in the face of intensifying competitive pressures, YKB needed to build on and improve its strengths as a diversified retail bank. According to S.A. "YKB has always been copied by many competitors, in many different respects, from a specific advertisement to the closing down of branches." In the light of all such remarks, we can infer that <u>*YKB was experiencing a significant amount of competitive and mimetic pressure, and it was probably not sure that its previously created market advantages would persist*</u>. Although these had been significant steps, such advantages were not sure to remain robust in the presence of a number of aggressive competitors. Some other major initiatives were necessary for sustaining strength in such a more competitive environment. This brings us to the next major wave of renewal initiatives implemented between 1995 and 1999, but conceptualised in 1994.

10.2.3 "New" Competitive Strategy, "Rationalisation" Program, and International Knowledge Transfer

The official bank documents state the major goals or "core elements" of the renewal initiative conceptualised in 1994 as follows: <u>*(1) "Further strengthen YKB's retail and*</u>

[70] We should stress that credit cards have become a very popular medium of payment, due to a one-month grace period on average between issuance of credit card statement and the due date of payment. In a high inflation environment, this becomes an important incentive for credit card usage as opposed to cash and debit card payments. The extent of popularity of credit cards was such that in a few years time they became a widely used medium for even grocery store purchases and shopping in weekly (open-air) markets. The latter became possible thanks to mobile POS terminals.

consumer base", (2) "Improve operational efficiency", (3) "Quantify and manage business risks more effectively".

To pursue these goals, YKB decided to undertake a number of steps. It decided to set up a "state-of-the-art banking operations centre" and centralise most operations[71], to transform its accounting-based management information system into a customer-oriented system, and to introduce a series of changes to organisation structure and processes. Before going into the details of these undertakings, which we will present later in this chapter, let us discuss first the rationale that led YKB to formulating the above-cited objectives and implementing the associated changes.

S.A. explained YKB's motive with the following statement: "*Minimisation of overhead expenses* was not the only goal in setting up the banking [operations] centre. It was not only gathering things in one location and away from branches. Another very important goal was *increasing the amount of products sold to each customer*. In the 1990s, we were on average selling just 1.1 or 1.2 products to each customer. A customer would have a credit card and perhaps a savings account, but the same customer did not have a savings account, a credit card, an insurance policy, a rental safe and so on. The number of products per customer is very low in Turkey. It is one third of the European average and one fifth of the United States'. By setting up this operations centre, we aimed to not only minimise overhead expenses but also maximise the cross-sale of products. We had customers with several accounts in several different branches, causing two or three times more expenses than they should. We wanted to monitor each customer from a single location by letting each customer have a single customer/account number. We aimed to sell to each customer more than just one product. Our major goal was expense minimisation as well as revenue maximisation. A further objective was applying new technological developments in a more modern way by maintaining and organising the technology infrastructure in one place and preventing unsystematic addition of new applications all over the place."

Once more, foreign banks and banking practices constituted an important inspirational source for YKB and served as a model in both the formulation as well as the actual steps taken towards the realisation of these goals. In addition, a major international consulting firm was also involved in this transformation. Although we have no exact information on the extent of its role in facilitating the formulation of goals, its role in process re-engineering and structural redesign was extensive.

S.A. had the following additional remarks on the renewal process in that regard:

(1) "In the United States, banks had already begun working *towards operational rationalisation*. In order to do the same, we have worked with the consultant teams of Arthur Andersen, from Milan and from Barcelona.[72] They have designed and structured

[71] Although 'operations' is a broad concept, in a banking context it refers to internal processes such as the execution of orders, the recording of transactions, the processing of information and so on. It represents the more mechanistic and routine aspect of the entire service provision process and as such it became subject to automation processes due to advances in information technologies.

[72] The choice of Arthur Andersen was due to trust in their experience and competencies as well as familiarity and prior affiliation with this particular firm. In S.A.'s words, "we have chosen Arthur Andersen, because having worked at Arthur Andersen earlier in our careers, the president, myself, and a few others, we naturally expected a smooth communication. Plus, they had previous experience [with this kind of project]."

our operations centre. They led the entire restructuring process, including the upgrading of the information system, the restructuring of the architectural design, the restructuring of branches. The management information system, the design of information flow, the work processes in branches, all operations, everything was reviewed and redesigned. Even the account booklets were changed.[73] A side- product of this rationalisation program was the new MIS [management information system]. YKB now has the most advanced MIS system in the sector for credit customers for example. All necessary information on each credit customer is available in the system so that we know exactly how much profit or loss is associated with each specific customer and why."

(2) "These people (from Arthur Andersen) had previously done such things in Spain, in Italy. They had previous experience with such projects in Europe. They had done the operations centre of a few Spanish banks, had restructured their branches. In each of these [banks], personnel were reduced in branches, or operations people were relocated to marketing. This was the goal.[74] Turkey and Spain have much in common in terms of culture, in terms of population characteristics and banking sector characteristics. They did the same things here."

Another interviewee, B.Y., described Arthur Andersen's role with the following words: "Arthur Andersen did not play a role in general strategy formulation.[75] They implemented a new [management information] system and infrastructure. They told us that the fundamental element of the [information] system must be the customer information file.[76] All data and transactions had to be gathered in an integrator and then to be redistributed to various sub-systems. They not only changed the MIS system, but everything including the computer screens used by branch personnel. The entire software system was transformed. We were previously using a transaction-based system. They replaced it with a system based on the customer information file."

The same person also added, "it was not possible to adopt Arthur Andersen's system as a whole and that they had to make several adjustments to what they initially intended to put in use. They have worked together with our own people in order to understand our specific needs here in Turkey and customise the solutions accordingly."

According to B.Y., each element of the organisational renewal program, and therefore the centralisation of operations also, corresponded to an integral aspect of the general

[73] In Turkey, each account holder is provided with a small booklet, where all account transactions are recorded. Account holders use this booklet for depositing and withdrawing cash at a branch. For depositing and withdrawing cash via an ATM, all they need is a debit card or a credit card.

[74] Such a horizontal shift of tasks and responsibilities must have been an exceptional situation, because, according to S.A., "promotion of personnel in general follows an upward straight line (promotion within each specialisation as opposed to accumulating generalist experience and qualifications). Specialisation is the norm."

[75] The same person has actually also mentioned that Arthur Andersen took also part in customer segmentation process. This could mean that strategy formulation was not entirely outside of its sphere of involvement. This aspect of the renewal process will be discussed later in this chapter, together with changes in organisation design and structure.

[76] According to R.Y., "centralised data retrieval and processing was possible before that renewal project, but to a lesser extent. Customer information files, the so-called CIFs, have been in use for the last eight to ten years and they have been continuously improving. It is not a brand-new tool. But the [information] search process has become much easier after the recent changes [in information system]. It was more difficult before. Technological improvements have speeded up and simplified the information flow."

strategic plan. In his words, "*centralisation of operations, further development of alternative distribution channels, improvement of risk control and risk management, and continuing investments in profitable segments such as consumer banking, all formed parts of an overall strategy package*. We have done these things not because other banks were doing so. We have not done any sloppy work. We have implemented the strategy that we believed in to the fullest extent."

We should note that it was not possible to establish any direct link between 1994 financial crisis and the explicit formulation of these specific goals, based on comments of interviewees. On the contrary, the decision to make the substantial investments that were considered necessary for the realisation of those goals was viewed as an initiative taken in spite of the inconvenience and strains caused by the crisis. As S.A. put it, "in order to minimise operational expenses and maximise revenues, the bank decided to invest about 150 million dollars in technological and structural renewal, despite the large [financial] crisis in 1994. 150 million dollars is a substantial amount. The bank was able to invest that much [despite crisis]."

Conceptualised and launched during the economic crisis year 1994, that transformation process took five years, finalised with the full utilisation of the banking operations centre in 1999, although it partially was activated already in 1997. More detail about this transformation process and its outcomes, i.e. adjustments in banking operations, processes, and structure, will follow in Section 10.4 of this chapter. Before proceeding with that discussion, it would be useful to overview the general organisation structure that was in place prior to the outlined changes in information management system.

10.2.4 Work Organisation prior to Restructuring

The major aspects of organisation structure in 1994 (see Appendix 12) were not substantially different from those in 1988, except for *further increase in vertical and horizontal differentiation and overall structural complexity*. Such an increase was normal, given the concomitant increase in environmental and business complexity, with other factors such as technology and primary processes remaining same. The number of vice presidents increased considerably due to increasing work areas and horizontal differentiation, and an additional hierarchical level, the executive vice president, was created, adding to overall hierarchy.

Horizontal differentiation entailed, again, a combination of functional and market segment / business line based division of responsibility at the top, and additionally, a geographic division of responsibilities within the retail-banking unit. Functional differentiation of responsibilities in the middle and at the bottom of the steep hierarchy remained same.
On the other hand, regional differentiation in middle management of the sales group was reduced. Regional management groups were brought down from fifteen to eight, enlarging the geographic span of control of each regional manager, who was responsible for both sales and operations. Operations was still geographically as dispersed as sales and regional differentiation in operations management remained higher. The line of command within operations management group also entailed a further division of authority within each regional office for smaller sub-regions consisting of three to five branches. With 70% of all branch personnel being responsible for operations as opposed to 30% for sales, this constituted a major function at both branch and regional level. Such *a more complex structure within the operations organisation in comparison with sales* was also normal,

given the much larger number of operations personnel, even though, both of these functions involved physically dispersed nature of work.

10.3 GB during 1990-1995: Organisational Revitalisation

10.3.1 General Strategy and Goals

Behind GB's renewal process lay the ambition of catching the industry leaders such as Is Bank (founded in 1924), Akbank (founded in 1948), and YKB (founded in 1944), the three largest private banks in the sector throughout GB's lifetime. Another primary objective was to perform better and more efficiently than these three, that is, to achieve a similar market share with fewer personnel and fewer branches. These had been the two main concerns of GB in all its benchmarking activities, both of which ultimately accomplished. Quoting Sa.Ku., "benchmarking was being done continuously with Akbank, YKB and Is Bank. In terms of the amount of deposits, credits, income etc. per employee and per branch, Garanti was most of the time ahead of these banks [in the 1990s]." Furthermore, along with these three names, GB ranked, in 1999, among the largest four private banks in the sector in terms of overall market share. In addition, a detailed comparison of business volume against the deployed human and physical resources reveals that the bank indeed achieved to operate in a more efficient manner (see Appendix 5). The bank's success in positioning itself within the core of the sector is also indicated by the fact that the bank itself was considered as a prime and direct competitor by these banks as revealed in their own documents.[77] These four banks, at the time of this research, altogether constituted the core of the Turkish banking sector and in a way determine the course of the sector by directly affecting each other's and other banks' actions rather intimately.[78] With the dual strategy of competing with core banks such as Akbank, Is Bank, which were leaders in commercial banking, and with YKB, which had pioneered and become the dominant player in consumer banking, *GB had to achieve two goals. It had to improve its core competency, which was commercial banking, and also develop new competencies in consumer banking*.

In order to cater to the *increasingly more sophisticated needs of businesses and consumers in a market, which was becoming increasingly more versatile and competitive*, there existed a great urge at GB to be quick in enhancing and improving competencies. The overriding goal and strategic priorities became diversification of markets and products, closer customer contact, aggressive marketing, superior customer service and efficiency in operations. The means to achieve these objectives required large investments in technological and human resource capabilities, accomplished with consistent dedication.

Historically, the bank had a strong presence in the medium-size commercial customers segment and had established close contact with such customers through its relatively large branch network (medium-size in comparison with that of YKB and other leaders) spread throughout the country. However, the increasing sophistication of financial markets and products was turning the larger corporations as well as the consumers, into a major business opportunity for the whole sector. *A major strategic change for the bank has then*

[77] YKB and Akbank documents accessed by the researcher.

[78] The state-owned giant Ziraat Bank appears to be quite a different story, operating with an entirely different rationale.

been the pursuit of individual customers as well as large corporations in addition to the preservation of the customers in the traditionally important medium-size business segment. Targeting both the (consumer and commercial) retail markets and the commercial wholesale market, i.e. large corporations, was considered a strategic priority and the bank increased its efforts accordingly, to operate as a diversified, universal bank. These efforts later culminated in increasingly more sophisticated customer segmentation and organisational differentiation.

10.3.2 New Management, Management Culture, and Resource Development

When I. Betil left the bank in 1991 to establish his own bank, A.Öngör was promoted to the general manager position. The promotion of Öngör, who was the assistant general manager in charge of marketing, is considered a "merit based promotion, in the presence of internal political contenders" [Sa.Ku.]. Shortly after taking this position, he initiated the very first of a series of organizational renewal projects that were going to take place during his tenure as general manager over the entire 1991-2000 period.

A key resource playing a key role, or an overriding factor, in the success of the bank is considered to be *the leadership, first A. Öngör, the General Manager*, and second A. Şahenk, Chairman of the Board and the main shareholder. In Sa.Ku.'s words, "if it wasn't for Akin Öngör, the Bank would have never become so successful, this is as certain as the color of my eyes. He was personally involved in all projects, never leaving people alone in difficult times, investing continuously in technology and human resources, creating continuity, stability and growth in credits, continuity in everything."

An additional very important factor for the success of these ambitious strategies and the improvement and enhancement of the bank's competencies is considered to be the *continuity and the continuous improvements in human and managerial resources*. As stated by Sa.Ku., "continuity in top management has contributed to the long-term continuity, stability, and maintenance of strategies and goals. Continuous investments in human resources contributed to sustainable development and continuous improvement. The quality of newly hired management trainees went up each year, with their educational and cultural backgrounds becoming significantly better year after year. When older management trainees became managers, placing new management trainees under their supervision became much easier, leading to perpetual improvement in quality." The increasing ability of the bank to attract, recruit and retain a different kind of personnel is to some extent reflected in the extent of change in the human resource profile. The average age decreased from 40-45 to 30 (between 1987 and 2001), the percentage of university graduates increased from less than 10%[79] to 83% (between 1987 and 1999), and the percentage of foreign language speaking personnel rose from less than 10% to 30% (between 1987 and 1999).

Another primary resource of the bank, which has been critical for the realization of these two goals, was continuously developing *technology* and the major driving force for such a drastic change in strategy and competencies was the "confidence in technology" and the importance of technological superiority. In Sa.Ku.'s words, "technological advancement is possibly the most important factor behind the success of the bank, perhaps even more

[79] According to Sul.Kar., there had been as few as 20-25 university graduates in total working at GB headquarters in 1985.

important than human resources." It is noteworthy that such a statement comes from the human resource manager, who was renowned for her great accomplishments in human resource renewal and development.

F.O.'s statement recapitulates the role of both technology and human resource development: "Two of the most important dynamics in the bank were the investments in technology and investments in the education and training the personnel. These two dynamics have never been ignored in change projects, have never been slowed down or stopped, not even during times of economic crisis, and they are still continuing".

Changes in organisation structure and operational routines were initiated and implemented through a series of formal project initiatives taken one after another and sometimes simultaneously. Including also a few "business process reengineering" projects, these were implemented in association with various international consulting firms. Furthermore, f*ormal structural and process change projects were also accompanied by other 'softer' approaches to increase receptivity among the work force*. Deliberate efforts for changing the company culture included extensive training and education of the work force, the new recruits as well as the old timers.[80] With an elaborate in-house training and education program in place, both new recruits and existing personnel were being trained and retrained to ensure openness to the ideology of continuous development and change and to break resistance and minimise inertia. Radical measures such as the laying-off of employees who were unable to adjust to new work requirements were common. *Until 1995, the number of total lay-offs was higher than the number of total new recruitment leading to a major decline in personnel size*.

Using F.O.'s statements, "the incredible developments characterised as a leap forward at Garanti have started with the appointment of Akin Öngör in 1991 as General Manager. Still continuing today. It is a great success story for the people who made it happen. And it has become part of the company culture... The company culture was transformed through numerous projects, which have continued to this day. *Continuous development and change has become a part of Garanti culture and [management] philosophy*…We have run several complementary projects over the years, either concomitantly, or one by one but without any major pause in-between. Some of these projects had overlapping aspects. But this was a major strategy. Akin Öngör believed in *speed of action*. He was saying that we did not have the luxury of working like a Swiss bank. We could not wait to see and evaluate the results of any one project before starting another one. As we had limited amount of time, we had to be quick, even if that later could bring additional costs of revision. His approach was like that."

The continuing role of top management transfers during that period, especially in areas involving new organizational competencies such as technology management and consumer banking, is reflected in the following interview excerpt with Sa.Ku. and Z.B.: *"External recruitment to key management positions* (at assistant general manager / vice president level)_continued to some extent during Öngör general management in the nineties. The person who was put in charge of the *technology unit* was transferred from

[80] A hired Harvard professor gave "change management" training to all middle level managers including the branch managers, and "openness" and "change management" training to top-level managers. Starting in 1993, more than twenty such training programs were completed over four years. [Sa.Ku-Z.B.]

Interbank, a pivot figure changing the destiny of the bank. Under his management, the bank has become a firm with the best technology in Turkey. *About 300 million dollars was spent for technology investments*. Two people came from the Central Bank. *The person in charge of consumer banking was transferred from YKB (note that YKB was the pioneer and very strong in consumer banking in those days*)… There was no transfer from foreign banks, but not because this was not desired, it just didn't happen. But, differently from the preceding period, we also *started with internal career development and internal promotion to assistant general management positions*. Until then, external recruitment to those functions had been our main practice… Within the current group of assistant general managers (as of 2002), only three have been recruited to their current positions externally. One of these, running the legal department, came from an American law firm. *Two people have been with the bank for over twenty years. One of them is in charge of commercial banking credits. The other is in charge of credit monitoring and control in commercial banking* (as well as of construction and real estate businesses). Most of the others joined the bank as manager and were internally promoted to assistant general manager." It is noteworthy that there was *significant management continuity in areas involving historically strong competencies*, i.e. commercial credits.

Having provided an overview GB's general business approach in this more competitive period, in the rest of this section, we will discuss the specific projects undertaken during 1992-1995.

10.3.3 Formal Organisational Change Projects

(1) *Systems Development* (1992-1994)[81]: As an initial step in organisational renewal, this project entailed a wide-ranging redesign of organisation structure and processes in order to focus on customers, customer service and relations. All job profiles, job responsibilities and processes were redefined and streamlined, in order to "put the customer first". *Functional organisation structure was abandoned*. The bank became the first bank in the sector in organising and differentiating its structure according to customer segments. *Four different business lines (consumer, small business, commercial, and corporate) were established, each* assigned to a different vice president. At the same time, the branch structure was transformed accordingly, by assigning *different portfolio teams to different types of customers belonging to different business lines*. In each business line, the operations function was separated from marketing and customer relations. *Hierarchy levels were cut down* from ten to six. (See Chapter 9, Footnote 26 for a list of levels.) *Decision making authority was significantly decentralised to regional offices*. A self-audit and productivity management system was created. Also, during that project, *113 branches were closed and 1850 people laid off*. Between 1990 and 1995, GB closed down more than 40% of its branch network and cut more than 30% of its personnel.[82]

A major reason for the drastic changes in personnel was the installation of an "avant-garde", "goal-dependent" performance appraisal system, which was also partly responsible for the drastic lay-off measures taken during that project. This constituted the seed of a system, which, with the introduction of the new information systems in the second half of the nineties, was going to develop into a panopticon-type performance

[81] With LoBue Associates as consulting partner.
[82] The branch network was sized down from 300 to 169 and personnel from 5602 to 3890. At the same time, the ATM network was growing and replacing various branch functions.

management and management reporting system. It was going to enable the bank to closely monitor the performance of not only each branch and business line, but also each individual portfolio manager.

Sa.Ku. described this process as follows: “We established a new avant-garde performance appraisal system, which was really goal-dependent. We used to discuss every six months to what extent goals were achieved, all the way down in the hierarchy. This was quite courageous. There was nothing like this in Turkey in those days. We have cooperated with Bank of America on that project and a quite reasonable system was developed. It was not as good as what we are used to seeing today, but it was a very good system in those days. Using this, we started with those with a bad performance. The unsuccessful people have been changed. Those who had committed fraud were fired. In other firms, you can see such people being forgiven, which did not happen here. The disciplinary committee never stepped back even when significant people asked us not go forward. We had an image of good discipline. We lost personnel. This however resulted in sort of an internal education. We would start with the people who were close to retirement. Those who were close to retirement were laid off getting six months of salary, sufficient retirement and health benefits and so on. People left the bank with great peace. No other bank has lived through such a dramatic change. This has been the most radical change process in the private sector… However, a significant number of old employees have been retained, renovated, and utilized. A significant number of pivot personnel were re-trained.”

The following interview excerpts (from interviews with people who ran that project, F.O. and S.C. provide a vivid picture of other major aspects of the project.

“The first objective of the systems development project was the identification of our (primary) processes. There was no process description, and work descriptions were old and vague. There were only some very old procedures of work. There was of course no mission, no vision, not even in the least sense of the word. In order to determine the (primary) processes of the bank we started with the identification of the steps in transactions and the workflow that was divided into different compartments. We identified those and thought about ways to increase effectiveness (efficiency). Most important of all, we tried to find out how these could be supported with technology. The result was more than two hundred sub-projects… But with this first project we tried to determine how we were doing things at the bank and how these could be done more effectively (efficiently) as well as making such an approach and way of thinking a major part of the bank culture. Our approach in this very first project was directed to our internal processes. Following that project, we continued with more customer-oriented projects.” [F.O.]

“Despite the elimination of functional differentiation among front line tellers in the early 1980s, the functional division and differentiation of work within the highly (80%) operations loaded branches had continued until the (partial) introduction of portfolio teams and centralisation of operations during 1992-94. Problems had been arising in branches because sales people were responsible to the relevant sector managers at the headquarters, while working with the branch manager on a daily basis. Although their performance was part of the branch performance, they were being evaluated by the sector managers at the headquarters for their customer visit performance. This was an appropriate structure for smaller wholesale banks, but it became highly insufficient when Garanti entered a period of high business growth, as a retail bank. This led to a complete restructuring of branches. The branch structure was completely transformed into a customer / business line based structure, i.e. differentiated into four different business lines, which were consumer banking, small firms, medium-size firms (commercial banking), and large firms (corporate banking). (For a definition of each business line, see Appendix 13.) Top management structure was partially transformed. Furthermore, work processes were streamlined and bureaucratic procedures sharply cut down (7000 different documents reduced to 400-500). Operations and marketing functions were completely separated from one another in each business line. Portfolio teams became solely responsible for customer contact and sales/marketing, as, despite the introduction of on-line communication and on-line transactions in the second half on the 1980s, operations was still a major hurdle within branches." [S.C.]

"One of the key elements of the Systems Development project was the centralization of operations. At the same time, we decentralized sales management by establishing regional offices. We now have more than ten regional offices. Regional offices had been established earlier, at the beginning of the eighties, but they had never operated according to purpose. Over time, they had entirely lost their function and become a protocol desk rather, where unsuccessful personnel were being sent, or they were being used as a depot. We decided to reactivate and use that structure appropriately and established a quite decentralized regional structure. Regional managers received the authority for approving loans up to 750 thousand dollars, which is a very significant amount. On the other hand, operations became more centralized. We started pulling back our operations into our operations center. In order to speed up the process of international trade operations, such as the issuing of credit letters, we had opened international trade units within branches. We also started to move these into our operations center with the support of our new technology. This happened in 1993-94. This process further intensified and ultimately, we have accomplished to gather all our regional operations into our operations center. Later [during 1995-2000 period described in the next section], this center has become a separate firm. The only operations left now at regions are cash dispensers and physical transportation of money." [F.O.]

The Systems Development Project was the main reorganisation project, with all the other smaller projects supplementing it. These were the following:

(2) _*Branch Redesign*_ _(1993-1994)[83]_: Branches were completely redesigned as points of sale and service, when the entire branch network and the head office were being renovated for improving customer and employee comfort.

In F.O.'s words, "with our second project, which partly ran parallel to the Systems Development project, and working together with the American Walker Group, we created a new branch design, which was in accordance with our internal processes. We used customer-friendly concepts such as the elimination of glass and similar barriers, established separate service areas for separate customer teams[84], introduced an automated queuing tool, and so on. We started to also provide those services on the ground floor, which other banks were giving on the second floor under the name of private banking [exclusive services to exclusive customers]. This was a brand-new approach in the banking sector."

[83] With Walker Group as consulting partner.

[84] It is interesting to note that, especially in rural areas, initial customer reaction to the separation of operations was negative, as they wanted to see and chat with the personnel they knew well. Also, closed rooms were initially not received very well, as this raised suspicions as to what was going on inside.

Other brand new applications such as changes in work hours, so as to include lunch hours and Saturdays, were courageous steps, having a significant effect on the sector. Many banks felt obliged to offer the same services, but others resisted, and a resolution was achieved through the Banks' Association, to keep only specific branch ratio open on Saturday.

Quoting F.O.: "The concept of Bank-Open-at-Lunch-Break was initiated by one of our employees. But it had already been established through our capacity and work load planning activities that our work load was unnecessarily huge in the hours preceding and following the lunch break, whereas it was next to nothing in the first hour of business in the morning. When the idea to keep our branches open during lunch hours was raised by an employee, we embraced it with great enthusiasm. We pulled our work hours from 8:30 to 9:00 in the morning and have cut down the lunch break from 1,5 hours to one hour. It took some time until we managed to work with a lower capacity during lunch, but ultimately it worked and we are very content with that approach. Many other banks imitated us later. The system works very well and it is hard to understand why everybody is not doing the same… In addition, adopting the motto of 'Turkey is working, why shouldn't we', we also started to work Saturdays. But we didn't get as good a good response from customers as we were hoping for. We were especially targeting the working population in consumer banking. But our Saturday sales are still very low. It is a matter of consumer behavior and habits. People don't go to bank on Saturday to discuss a personal loan. But we have been able to serve our commercial customers much better. We provide all kinds of services, collect money, and pay their cheques. Traditionally, Fridays have always been the busiest day of the week for firms. Working on Saturdays, we have been able to shift some of the workload from Friday to Saturday. However, we faced some resistance from the Banks' Association. Because not everybody was able to do the same, they considered this an unfair competitive practice and an agreement was reached to keep only a limited number of branches. A certain ratio was determined to set this number according to the total number of branches … Both of these practices have been quite influential in the sector."

(3) *BEST*[85]*(Strategy for Effectiveness in Consumer Banking)* (1994-1995)[86]: With this project, the bank defined target customer segments, aligned the organisation structure accordingly, and developed a new marketing strategy for each segment. Included the introduction of new consumer banking products such as ELMA, the Excess Liquidity Management Account.

F.O. stated: "Our following project, BEST (Effectiveness Strategy in Consumer Banking), was a customer oriented project. Consumer banking was an ignored area in Turkey until the nineties. This was our first project with McKinsey. For the first time, we developed customer segmentation. We divided the consumer banking customers to groups such as A, B, C, with A representing the highest income or value added. We wanted to better understand the needs and demands of different customer segments and how we could improve our services to these different groups. This also implied changes in our organizational structures and processes. The primary implication was the change in the branch structure and retail banking structure. In those days, a functional structure was

[85] The acronym for *B*ireysel *B*ankacilikta *E*tkinlik *S*tratejisi.
[86] With McKinsey & Co as consulting partner.

being used in the branch. Transactions were handled in units such as credits, foreign trade, current accounts, foreign currency transactions, promissory notes, and so on. There were no customer-based units (differentiation, departmentalization) such as consumer banking and commercial banking. With this project, we for the first time established a separate consumer banking services unit [divided into consumer and small business units]. At the same time, this meant the automatic establishment of a separate commercial banking unit within the branch. At the same time, we started implementing the concept of relationship banking, by forming portfolio teams and using customer representatives who were assigned the responsibility for different clients. We have done this very systematically in consumer banking. Our approach was less systematic in commercial banking. There, initially the manager responsible for commercial banking became responsible for assigning customers to his/her team members. Initially, performance measurement and control techniques, both in terms of costs and revenues, were quite underdeveloped, usually restricted to indicators such as number of clients from different segments, amount of deposits and so on. Today we can even measure cross-selling by customer."

(4) *Corporate Branches* (1995)[87]: A special(ised) network of branches (seven in total) focussing on the Istanbul area (four branches) and three other large cities (Ankara, Izmir, and Bursa) was created to exclusively provide services targeted to the corporate segment. Functions such as corporate credits, corporate marketing, corporate risk analysis, and treasury transactions were all directly handled and run by those branches instead of jointly by full-service branches and the head office.

F.O. stated: "At that time, we didn't have yet the idea of differentiating all our distribution channels. Providing the same service to everybody everywhere was however an outdated practice. This was often being said in conferences I was attending in those days. Our first initiative for differentiating our distribution channels was the definition of the corporate customer and the establishment of separate branches for such customers. This was our Corporate Branch project. Corporate customers consisted of larger firms, the so-called Top 500… The criteria used for the identification of corporate customers were the amount of annual revenues and the ownership structure of the firms. We have set up seven corporate banking branches, four of these in Istanbul. The customers, who were identified as corporate customers, had to be reallocated to a smaller number of corporate branches, which sometimes meant transferring them to a more remote branch location. Initially we faced some negative reaction both from customers and from our own managers who did not want to lose their customer base. But our major objective was providing better service to those customers, in a more focussed manner. Initially we had small operational or logistical problems for a week or two, but these were solved quickly and our customers are quite happy now, they wouldn't want to go back to the old branch structure any more. More recently we have seen that even Akbank started to open separate branches for corporate customers and I expect that most banks will restructure their branch network soon and establish different units for different customer segments."

He went on: "It was very obvious that corporate customers' needs were much different from other types of customers' needs. These needed very different and diverse products and services. So we have educated and trained specialized customer representatives for corporate customers and formed portfolio management teams just as we had done with consumer banking customers. A portfolio management team in corporate banking became

[87] With LoBue Associates as consulting partner.

responsible for an average of 30 to 35 customers, the range being 15 to 50, depending on the amount of workload and size of customers, the diversification of the customer set and the abilities and experience of customer representatives. Previously, when corporate customers were being served in our standard full-service branch format, it was not possible to concentrate on their specific needs. They were served in the same way as other customers, for example, they had to wait in line for an unnecessarily long time."

According to Sul.Kar., "the moving of large corporate customers away from the standard, full-service branches enabled the bank to realize that many of the remaining customers in those branches were not profitable business at all. It had not been possible to realise this, before the removal of large businesses."

The formation of separate corporate branches must have been an important first step for achieving longevity in customer relations and diversification of products and services provided to a given corporate customer. In other words, this was an important step for becoming the house-bank of corporate customers, or at least one of the few banks considered and contacted, even though pricing was still a major factor in that segment.

In F.O's words: "A critical factor considered by corporate customers is always the price of products and services. Because the total number of corporate customers in Turkey is not more than 1000-1500 and these are customers of all banks in the sector. In the eighties, when competition was much less than it is now, banks could make a lot of money from these customers, especially smaller wholesale banks have made fortunes by concentrating on such customers. Later on, price competition became important. Banks now work with very small profit margins when doing business with such firms. But at the same time, these are also the customers paying attention to the quality of service they get and can tolerate a slightly higher price if the service quality is high. In general, this is not necessarily true for other types of customers. It is a rather new phenomenon in other segments. It is just starting to be so. Generally speaking, the average bank customer in Turkey is very price-sensitive. The primary concern of the individual customer is the price, service quality is less important. But this is hopefully changing now. For corporate customers, service quality is important. This is the reason why we opened separate corporate branches, a practice, which is gradually being copied by others in the sector, even the most conservative ones. We have seen the benefits of providing high quality service to such customers. Initially we have done this at great costs, and to some extent, we are still doing so. We even send our people to their office to pick up their cheques and notes and to deliver cash or international trade documents. In customer satisfaction surveys, we come out far ahead of our competitors in the corporate segment. We come ahead of them in all segments, but the most significant difference is in corporate banking. Also, the increase in our revenues from such customers as well as our profitability rate in that segment prove our success in that customer segment."

In our industry-level analysis we had established that those wholesale banks, which, as suggested above, for some time had generated large profits by focussing on larger corporate customers, had more recently started to follow a diversification strategy. When market conditions became tighter, these had started to enter the retail markets of commercial and consumer banking. In that sense, it is interesting to at the same time observe that GB was trying to accompany and support its own diversification strategy with market segmentation and more differentiated service and organization structure. It was trying to operate with different business formats in different market segments, incorporating a wholesale banking format and structure for corporate banking.

(5) *Risk Adjusted Return on Capital (RAROC)* (1995)[88]: The bank applied a new risk-measurement and management technology to improve timely risk monitoring and risk-adjusted returns within and across different sets of portfolios and types of risks, including foreign exchange risks, interest rate risks, liquidity risks, credit risks.

Quoting F.O.: "Our next project was the Risk Adjusted Return on Capital (RAROC) project, which was realized in 1995. The objective was to establish a system to measure and determine how much of our capital is being put to risk for generating a certain amount of revenue. It is a measurement system that enables you to determine liquidity risk, interest rate risk, foreign exchange risk and open position risk, as well as the risks arising from a mismatch of borrowing and lending terms. Weekly reports are prepared, which are then used by the asset and liability committee in their weekly meetings, for their short-term strategic decisions. They take into consideration both the weekly market and demand conditions as well as the risk related aspects and implications of certain price and volume decisions."

Adding on: "The establishment of such a risk measurement and evaluation system san be attributed to the visionary abilities of Akin Öngör. The 1994 financial crisis must certainly have played a role in that. Risk management systems are a quite new phenomenon in the world. When we established such a system in 1995, Garanti was one of a handful of banks, not only in Turkey but also in the world, with such a capability. The European Union norms for risk evaluation and management are quite new. These were developed in 1998. We have only very recently started to adopt the same norms in Turkey. What Garanti has established in 1995 is based on the same principles as these."

The bank had its initial public offering at the Istanbul stock Exchange in 1991 and it was one of the seven commercial banks, whose shares (a minority) were publicly traded, at the time of this research. It also had international secondary offerings in New York (1993) and London (1997). With its shares publicly traded in both local and international markets, and also generating a significant amount of long-term funds in international markets, GB was paying close attention to what such investors require and value. Its financial reporting has for example not only been reflecting the accuracy required by local conventions and rules but also international conventions and codes. We mentioned in Chapter 11 that GB had used independent international auditors when there was no local legal requirement to do so. Furthermore, at the beginning of the 1990s the bank continued to enhance international integration by introducing the implementation of inflation accounting (IF 29), again, long before 2002 when this became a legal requirement for banks in Turkey. These were developments very much sparked by the bank's increasing involvement with international financial markets. Both the long-term credit relations with international financial institutions as well as the secondary offerings of bank shares in international financial centres had made the role of good international credit rating a crucial one. It became very important to have a strong financial structure as well as reflecting this strength accurately. These factors must have played a major role in the importance attached to sound financial management and careful risk management during GB's rapid growth over the 1990s.

[88] With Bankers Trust as consulting partner.

10.4 YKB during 1995-2000: From Leader to Defender - Technological Leap and Organisational Restructuring

10.4.1 Organisational Expansion and Continuing Stronghold in Diversified Retail Banking

YKB had a *new organisational expansion* in this period, following the substantial downsizing, which took place in the first half of the 1990s. Its branch network expanded by almost 20%[89], personnel size grew by almost 30%[90]. However, even with such a growth, YKB's branch network and personnel accounted for not more than 5.6% and 6% of the sector in 1999, and with only 7% market share in total assets, YKB had *become the largest private bank* and the third largest bank in the sector in asset size terms. The year 1999 marks also the end of B. Karaçam's twelve-year tenure as bank president, during which YKB transformed from a traditional bank into a modern financial service provider. [91] In 1997, YKB also had a secondary public offering of its shares at the London Stock Exchange. As of 2001, 30% of its outstanding shares were in the hands of international investors and 10% belonged to local investors.

The substantial 30% growth in work force size can be referred back to the large number of people employed in the operations centre that was set up in this period, considering that *total branch personnel was actually reduced by almost 20% due to consolidation and centralisation of operations*.

With new employment following the layoffs in early 1990s, *personnel qualities also changed*. The percentage of personnel with a university degree went up from 42% in 1992 to 51% in 1999 and 53% in 2001. The average age was 34 in 1999 and 31,5 in 2001. Average tenure was 7.4 years in 2001. According to S.A., "those at retirement age have been leaving the bank. The bank has a young work force, as there is sufficient reservoir of young executives promoting from below, people at retirement age normally take retirement… Internal promotions represent 98% of all personnel appointments to branch management positions and 90% of all appointments to departmental management positions. External promotions are extremely rare. These occurred either at general manager level [H.O. in 1984] or, in the case of a specific 'technical' job, at vice president level, if no internal candidate was internally available for that job."

The growth in branch network can be primarily associated with the extra efforts for strengthening the retail base, especially the relations with SMEs (small and medium size enterprises), during this more recent period. The number of representative and liaison offices abroad and foreign branches were reduced to six[92] and one[93] respectively, but this was partly a result of opening international subsidiaries[94]. The ATM network grew also by

[89] Up from 361 in 1994 to 430 in 1999. (See Appendix 10.)

[90] Up from 7786 in 1994 to 10089 in 1999, followed again, by a small drop after 1999. (See Appendix 10.)

[91] The replacing general manager N. Sigin was the vice president in charge of treasury and capital markets and had about ten years of experience with YKB at the time of his appointment as president in 1999.

[92] In Cologne, Munich, Stuttgart, New York, London, Moscow.

[93] In Bahrain.

[94] BCP (Banque de Commerce et de Placement), Geneva (1996); Yapı Kredi Deutschland AG, Düsseldorf (1999) (former Düsseldorf branch); Yapı Kredi International Financial Services, Ireland

more than 30% during the same period. Although there had been a significant decline in its market share over the years, with 11% of the market in ATMs in 2001, YKB still possessed the second largest ATM network in Turkey. [95] In 2001, alternative distribution channels accounted for 52% of total customer transactions with ATMs being the predominantly used medium. During the same period, the bank's POS terminals increased more than nine-fold. With a 20% share in terminals and transactions, the bank had the largest share in the sector in 2001.[96] Despite losing some market share in credit cards[97], with 20% of the market in 2001, YKB also remained as the largest provider of credit cards, and with more than 25%, it still had the largest share in card transactions.

In this period, YKB *maintained its stronghold in retail banking by continuing to introduce a series of new products and services. Most of these were supported with advanced communication systems*, including the internet, GSM (cellular phone) services, digital television and the like. The summary of the major events during 1995-2001, in Appendix 11, displays a number of important steps in this respect.

As also indicated by the composition of the bank's revenues, funds, and fund allocations, these continuing efforts were effective in solidifying YKB's retail banking capabilities. In 1999, funds generation was predominantly taking place thorough deposit collection (71%); credits accounted for a predominant share (40% excluding loans to banks, 57% including loans to banks) within allocated funds; and revenues were loan interest dominated (43%). Market share indicators likewise indicated a strong retail capability. In 1999, the bank had the largest share in the sector in terms of total credits (10%), consumer credits (27%), and commission and fee income (15%). It should be highlighted that all of these plus its market share of 10% in total profits were much above its share in total revenues (4%) and total assets (6%).

In S.A.'s words, "YKB has been *an all-round financial service provider and not dependent on any single aspect of banking* but have been involved in many. We have also had open [foreign exchange] position, but never an excessive amount. Even though it was extremely profitable, we have not invested excessively in government paper. We have been giving the most credits in Turkey, both in absolute terms as well as relative to total assets."

10.4.2 Implementation of "Operational Rationalisation" Program and Organisational Restructuring

It should be noted that the organisational renewal project outlined in Section 10.2 of this chapter was completed in five years when the so-called "state-of-the-art banking centre" [the operations centre] became fully operational in 1999. Therefore, some of the structural and process characteristics pertaining to 1990-95 period also apply to 1995-99 period, but various aspects of the structural and process changes were already actualised by 1997.

(1998); Yapı Kredi Moscow (1999) (former JV Yapı Toko Bank); Yapı Kredi Nederland NV(2001) (former Amsterdam branch).

[95] The ATM network grew, going up from 910 in 1994 to 1207 in 1999 (1337 in 2001). In 2001, the total number of ATMs within the network shared with the sister bank Pamukbank was 2076. YKB's market share in ATMs, was 40%, 20% and 11% in 1988/90, 1996, and 2001, respectively.

[96] The number of POS terminals increased from 3600 in 1994 to 35000 in 1999 (73000 in 2001).

[97] 40% and 35% market share in credit cards in 1988 and 1996, respectively.

All operations except consumer loan monitoring were located at this centre with over two thousand people working there, including four hundred of the technology subsidiary Yapı Kredi Technology Services Inc. Other major departments were credit cards, internet banking, and the call centre. According to R.Y., “the total capacity of the operations centre is economically not justifiable by the current volume of transactions. A longer-term perspective is essential… Internet use is still quite limited, but is developing fast. You have to be present in that segment. It has great cost advantages associated with economies of scale. There is a clear upward trend, but it will take some time.”

According to S.A., “ATMs have been very effective in pulling the customer out of the branch, but telephone and internet banking have not been as successful. Turkey is still in the crawling stage of internet usage; it is mostly used for chatting. People are afraid of even ordering a book through internet. I know this, because I am also on the board of Superonline.” Indeed in 2001, YKB had only 122 thousand internet customers, while it had a total of 7 million consumer banking customers. However, according to Se.Ka., the bank is keenly working for developing electronic banking to its full potential.

The consolidation and centralisation of operational processes at a single site enabled YKB to *“rationalise” the number of personnel working in operations*. Whereas 70% of all branch personnel were responsible for operations tasks before centralisation, this dropped to 40% thereafter. According to B.Y., “branch operations became limited with back-office functions, such as cash management and internal control tasks such as the daily cash count.” Total branch personnel was actually reduced by almost 20% due to consolidation and centralisation of operations.[98] Furthermore, the reduction of branch personnel was accompanied by an increase in branch transaction volume by 36%, resulting in *a 67% growth in transactions per employee (labour productivity and efficiency)*.

The regional middle management structure within operations was moved to the operations centre and branch operations started to report directly to that centre. The consolidation and centralisation of operations not only increased efficiency in operations, but also created extra human resource capacity for sales and customer service functions. Operations personnel becoming redundant after the consolidation and the centralisation of operations were re-trained and assigned to sales/portfolio management functions, which have taken up 60% of all branch personnel. *The allocation of a larger slice of total resources into customer interface functions in front office (boundary-spanning functions) also meant enhanced customer service and relations capacity*.

Besides increasing work capacity and efficiency, such a centralised system of operations also contributed to the quality of major processes, firstly, as a result of higher specialisation and standardisation becoming possible within a centralised operations unit. Secondly, and as explained by B.Y., “the elimination of the reporting relation to branch manager and the establishment of a direct reporting relation with the head office was an important factor contributing to the minimisation of conflict of interest. This greatly enhanced the internal monitoring and control capability of the bank, minimising transactional deviations from rules and procedures.”

[98] There was a much more drastic decrease in operations personnel in branches: 67% cut in credit operations and in accounting, 59% in cheque transactions, 36% in foreign exchange operations. Because a large part of those operations personnel was shifted to sales, total personnel reduction was less drastic.

Se.Ka. explained this phenomenon in a detailed way. In his words, "Operations personnel's work is multi-dimensional [complex]. Sales personnel's work has fewer dimensions [is less complex]. Sales people need to consider only a few variables such as market conditions and the costs of the bank. Operations people need to consider a large number of things, including internal regulatory matters and external regulations. These are also important for sales personnel; they need to know for example how much of the foreign exchange they purchase from a customer must be deposited with the Central Bank. However, from time to time, sales people may negotiate and transact with customers without sufficiently considering such regulative constraints. In such a situation, operations must warn the sales people. Operations people check whether the transactions agreed upon by sales are in accordance with corporate rules and business procedures as well as with national and international regulations. If sales people fail to observe such restrictions, operations has to report this to the relevant management organ. They have to submit a deviations report."[99]

The new "customer-driven information system" replacing the old "accounting-driven information system" was geared to improve the capability of customer-specific monitoring, analysis, and control of revenues, costs, profitability, and risks (risk-return assessment). An improved understanding of such customer-specific parameters was to lead to improved decision-making, to the development of customer-specific products and services (product and service customisation), and to both higher standardisation as well as flexibility in customer relations. Se.Ka. had the following remark: "Before the transformation from product-focussed to client-focussed approach and branch organisation, Burhan Karaçam [YKB president] had made the following statement: 'When your standard product does not meet the needs of your customer, you need to develop a tailor-made product. In order to be able to do so, you need to develop your technological infrastructure and human superstructure.' YKB has been among the first in the sector to switch from a product-focussed to a client-focussed approach and a number of new products were actually developed by focussing on specific customer needs."

Because the new information system was instrumental for achieving greater rational decision-making capability at all levels of the hierarchy including the level of customer representatives and for improving the appraisal and control of the their performance, day-to-day decision-making at branch level could be decentralised. Customer representatives could, within broad limits have the autonomy to adjust their own sales strategy according to their overall performance targets in different respects. *This was meant to increase flexibility without jeopardising standardisation and formalisation in decision-making, especially because the information system was serving as a useful tool for reducing task complexity*. Furthermore, even in decisions requiring the approval of a higher-level authority, the upstream communication lines with customer representatives were maintained for mutual adjustment of decisions. In S.A.'s words, "the automation has eliminated the paperwork, but has not impaired flexibility in customer relations and

[99] Se.Ka. gave an example: "A typical example is the following, which actually is a systemic problem. All credit contracts are subject to a stamp tax, which is not a small percentage. Without this stamp, the credit contract cannot be legally binding, even if all necessary signatures are present. However, because the stamp tax usually means a significant amount, many credit customers try to evade that obligation. The absence of that stamp has to be reported in the deviations report, which is prepared by operations. This is the most typical example, but there are many others. Deviation reports are then followed by the risk control and management unit. If a sales team fails to get the required stamp, internal audit unit may have to get involved and investigate the branch. This may eventually lead to certain disciplinary measures and even to a lay-off. "

decision making. If a customer representative believes that a certain credit allocation decision needs to be modified, s/he can take the initiative to discuss this face-to-face with the relevant authorities. This kind of flexibility has been maintained."

Such customer- or market-oriented changes in process and structure were supplemented with a number of additional organisational design changes that were geared to maintaining a market- and marketing-driven organisation (see Appendix 12 for details of organisation structure). The taking away of many operations functions from branches was an important element in the transformation of the branch network into a sales network. An important aspect of that transformation was *a considerable reduction in structural complexity in branch organisation, i.e. hierarchical as well as lateral*. This was done through the introduction of customer representatives / portfolio managers, who were given the responsibility of handling and managing a variety of services for each client in their portfolio.[100] This means that *functional differentiation was replaced with a client-based division of work*. This was mainly to serve the purpose of creating a bank-customer interface, which would lead to more effective relationship management, due to improved knowledge of customers, their specific needs, behaviour, and risks. *The traditional branch level marketing / sales management function was transformed to a business line / segment management function, with portfolio teams reporting to the corresponding segment manager. This in turn started to report directly to regional sales co-ordinator in place of the branch manager.*[101] The branch manager was given a more general co-ordination and coaching responsibility. According to B.Y, "branch managers became responsible for administrative co-ordination of branch activities, for making sure that everything works properly and smoothly. However, if a certain customer accounts for a substantial amount of business in a given branch, this customer may be under the direct responsibility of the branch manager."

Because all business lines, except corporate banking, were represented in all branches, such business line based differentiation of tasks and responsibilities was necessary. There were *three business lines* / customer segments: retail commercial banking, consumer banking, and corporate banking.[102] *Corporate banking was done only in specific corporate branches* of which there were only nine, five in Istanbul and four in other commercial centres (Bursa, Izmir, Ankara, and Denizli).[103] There was no further differentiation of branch types, which means, *all branches except nine corporate branches were hybrid or full-service branches, serving both smaller firms as well as individuals*.[104]

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[100] The customer portfolio of each representative / portfolio manager consisted on average of 30 firms. Different from commercial and corporate banking, in consumer banking, customer representatives were used only in the upscale personal banking segment and in only 75 locations. Out of 7million consumer banking customers of the bank, only 15 thousand belonged to that group in 2001.

[101] These business line / segment managers were also called branch marketing managers. Each branch normally had a branch manager, an operations manager, and at least one marketing / business line / segment manager.

[102] Investment banking line was transferred to a separate investment banking and brokerage subsidiary that was formed in 1998.

[103] Initially sixteen corporate branches were opened, but these were subsequently dropped to nine. (Se.Ka.)

[104] In hybrid or full-service branches, there were different customer representatives serving different business lines /segments. The number of customer representatives representing each business line in any given branch depended on the business volume of each of these lines. This in turn depended on the location of a branch and the population and business demographics in the area. (Se.Ka.)

Even though corporate branches were specialised in corporate banking services, these occasionally provided personal banking services to corporate clients, too. In Se.Ka.'s words, "corporate branches cannot deny a certain personal banking service, if a top executive of an important corporate client has such a demand. But their core task is to provide corporate banking services, of which a major portion consists of international trade finance." The reverse situation, i.e. servicing a corporate customer in a retail branch, was also possible. In E.A.'s words: "Occasionally when a firm with total sales above the one million dollar line applies to a retail branch, that branch may try to gain that customer, enter a business relation and provide a credit. The customer is subsequently transferred to a corporate branch."

There were also concomitant changes in middle and top management. As was already mentioned, regional operations were eliminated and branch operations started to directly report to operations centre, where regional differentiation of authority was maintained. A more *differentiated hierarchy was however retained in sales*. *Branch level business line (marketing) managers started to report to a newly created middle management position, namely an area or field co-ordinator*. Unlike old regional managers, these people were responsible only for sales and not for operations. The national market was divided into approximately 30 smaller regions, the so-called areas or fields, and a sales co-ordinator was assigned to each of these smaller regions. *Each field /area under the responsibility of a sales co-ordinator contained fifteen branches on average, a sufficiently small number for effective customer relations and marketing* according to E.A.

According to B.Y., "the sales areas / fields are determined on the basis of typical commercial characteristics of a given geographic area, the typical needs and behavioural characteristics of the client base. The predominance of a certain business sector is for example an important factor for determining such regions. The main responsibility of each co-ordinator is implementing a specific business strategy in a given region and assuring that all branches with similar customer characteristics work in unison and in the same manner. The co-ordinators are actually part of the head office. Since we could not create as many assistant general manager / vice president positions, we *had to create this co-ordinator level in order to speed up the decision-making and implementation process*. These people [co-ordinators] report in return to the corresponding assistant general manager / vice president. There are *three vice presidents in retail commercial banking who are responsible for three larger geographic divisions*, one for Istanbul and the Marmara, one for the Aegean and Mediterranean, and one for the remaining places."

The new organisation structure, that is, the changes in branch organisation, middle and top management became effective in 1997. In addition to the above-described changes at branch level and in middle management, the *top hierarchy was also reduced*. Compared to 1994, we observe that the overall structure has become more flat. Whereas there were two different vice president levels in 1994, one executive and one non-executive, these were merged into one executive vice-president level, increasing the direct reports of the bank president from eight to nineteen.

10.4.3 Primary Processes and the New Organisation Structure

It will be possible to better understand and assess the implications of such a customer-focussed organisation structure, if we consider the two main dimensions of decision making in banking and the related processes separately. One of these concerns the sales and revenue generation related decision-making processes and structures, the other concerns those related with risk assessment, credit approval, and funds allocation decisions. The ultimate goal is the maximisation of revenues and minimisation of risks, and these usually involve a trade-off. The following characteristics of YKB's organisation structure and decision-making procedures may also contribute to our understanding of the manner the bank has been addressing these two main issues.

a) *Risk assessment, credit approval and funds allocation processes*

At the basis of a credit decision lies the information collected and processed by customer representatives / portfolio teams. According to E.A.'s (vice president in charge of retail credits), "the primary interface with the credit customer is the customer representative [portfolio team] and the branch management [business line / segment managers and the branch manager]. These are the people, who need to know the customer best in terms of financial credibility and personal reliability. These are the people, who introduce and describe the customer to us. Our own credit analysis teams also analyse the financial information and customer reports provided by customer representatives. Their loan proposals arrive in our unit together with the opinions of branch management, of area /field co-ordinator, and of the vice president who is in charge of the relevant business unit."

The credit approval and allocation decision, depending on the type, size, urgency of a credit, and overall economic uncertainty and risk, can take place at branch level, the area/field co-ordinator level, the vice-president level, the credit committee level, or the board level. Thus, the extent of centralisation-decentralisation of that decision depends on the significance and probability of potentially harmful consequences. There are also legal limitations to de-centralisation of credit decisions. Specific banking regulations put an upper limit to each type of credit (collateral versus non-collateral credits) that can be approved by a certain authority level. Authority delegation must remain within such limits.

The credit committee includes the managers and vice-presidents who are in charge of different credit units in different business lines, the general manager, and two additional members from among board members. It meets weekly to discuss the proposals submitted by different sales departments. Some credit committee members are also members of the assets and liabilities committee (ALCO). The latter also meets weekly to review and discuss weekly macro-economic developments and decide on weekly business strategy and policies such as pricing (interest rates). (B.Y.) Therefore, credit allocation decisions can be made according to weekly adjusted funding and funds placement strategies and decisions. An important new application for controlling treasury risks (i.e. of overall funding and funds placement) was the "Trading and Integrated Risk Management System" implemented with collaboration with Wall Street Systems Inc. in 1999. It was meant to improve asset and liability management by enabling the real time monitoring of treasury positions.

Delegation of some credit approval authority to area/field co-ordinator level was for example a new implementation contributing to de-centralisation of credit approval and allocation decisions. This was for reducing the workload of top management as well as increasing sense of responsibility and ownership for credit decisions. In Se.Ka.'s words, "self-made credit approval decisions contribute to a sense of responsibility and ownership.

If you use your own authority to approve a credit, you monitor that credit more closely and carefully. If a higher authority takes this decision, the monitoring job at lower levels may be more problematic."

One of the major benefits of the *customer-based management information system* in terms of risk assessment and credit decisions was the development of a more *standardised and automated formal risk scoring system*, contributing to decentralisation without jeopardising judgmental quality. The risk scoring system, which was developed internally by financial analysis and risk monitoring unit in association with Dun and Bradstreet, an international credit information provider and rating agency, uses the data generated by the new MIS. In B.Y.'s words, "each customer is given an overall score/rating that is generated according to a number of criteria such as financial liquidity, profitability, the sector it operates in, and so on. It is very detailed. The frequency of risk and [business] review of each customer depends on that rating.[105] If it is a Single-B for example, this requires a monthly review, which also may lead to a change in the applicable interest rate. This pricing decision belongs to the credit committee."[106]

According to R.Y., the head of financial analysis and risk management unit, "the scoring also entails a behavioural aspect, monitoring and rating the history of each customer's behaviour during its life in the system [in its dealings with the bank]… And there is also a quarterly rating of business sectors and sub-sectors. The rating is based on SWOT (strengths and weaknesses – opportunities and threats) analysis and involves the use of a number of criteria. The judgement with respect to each specific criterion takes however place subjectively, that is, by combining the subjective judgements of a team of industry experts consisting of fifteen people."

According to E.A., the vice president in charge of retail (commercial and consumer) loans, "personal loan and credit card approvals and loan limits are done quite automatically according to automated risk scoring. In the commercial segment, the scoring system also proved very useful for our credit approval and allocation decisions. Our scoring model is very good. It has been developed with a broad range of tests. Most of the time, the scores it generates and our own judgements exactly overlap. It is such a beautiful model. However, we sometimes may decline a credit application due to various reasons even if it has received a sufficient score [in automated scoring]. But it still constitutes an important input for decision making and a useful tool."

According to P.S. despite such clear standard procedures, if a customer representative thinks that a given customer (loan applicant) cannot be judged fairly through the formal credit scoring system, this person may still take the initiative to present and defend a diverging opinion by higher authority levels. This may happen if for example this person has access to additional information not included in the customer information file such as an extraordinary cash flow.

b) *Sales, revenue generation and customer generation processes*

[105] Not only credit approval and allocation decisions but also after-sale monitoring and follow-up taking place according to risk scoring.
[106] He possibly meant that the pricing decision belongs to the level where the credit approval and allocation authority resides. Credit committee is one of these authority levels.

As mentioned in the above paragraph, the asset and liability committee is the primary authority to determine the weekly funding, funds allocation, and pricing strategies. These constitute the main guidelines and input for sales decisions. Another important input for sales and customer relations decisions consists of the outputs of the so-called *"profitability management system", which provides information on the actual profitability and profit potential of each customer* on a yearly, monthly, and even daily basis. A variety of goals / performance targets are specified by that system. All customer representatives in all business lines use this database to monitor their customers' and their own performances. Their own work performance is directly linked to their accomplishments in relation to these *pre-specified customer- and product specific performance targets*. This capability is actually of great relevance for credit approval and allocation decisions, as risk and return always need to be analysed in conjunction with one another and returns must be in tune with bared risks. According to S.A., "such an automated profitability analysis system is especially of critical importance in the case of loan customers because of the risks involved. The automation of this process lifted a large burden from the shoulders of branches by enabling them to access all necessary information at the touch of a button."

An important benefit of the profitability analysis system was the extra amount of flexibility built into the process allowing customer representatives to exercise some freedom and autonomy especially in pricing decisions. This means for example that *a customer representative can decide on the specific interest rate on a deposit or credit as long as this rate is within the boundaries set by treasury*. This in return depends very much on the weekly guidelines set by the assets and liabilities committee. According to P.S., each customer representative has to take that decision by considering a combination of factors such as implications for different performance targets, customer characteristics, and his/her own actual performance in terms of different targets. The ultimate decision depends on a combination of all these factors and entails some degree of freedom and autonomy. According to S.A., *such autonomy and freedom is especially important in retail banking*. In his words, "if you are doing retail banking, the retailers, that is to say, the people at the front-line need to have some autonomy and freedom. Otherwise, you cannot dominate one third of the market. Consumer loan and credit card businesses especially require autonomous decision-making… Such delicacy in decision-making and customer relations was spurred by increasing competition… Just like in credit approval and allocation, different degrees of autonomy and freedom in pricing (i.e. interest rates, commissions and fees), that is, the lower boundaries of prices, are assigned to different authority levels in each business line. If a certain level does not possess the necessary authority for a given pricing decision, the next authority level is consulted." According to S.K., "some pricing decisions were completely decentralised, for example the decision whether to charge or not charge a fee for money transfers. This is completely up to branch management. If a certain transaction is expected to be profitable even if the fee is foregone, these may decide not to charge that fee."

According to P.S., the overall performance appraisal of each customer representative is produced by combining individual scores in a number of dimensions such as revenue generation, profit generation, loan delinquency, new customer generation, customer retention, deposit generation and so on. The weight of each individual score within the overall performance score is adjusted at least annually, depending on overall business policy and strategies and the rationale for the adjustments is explained to customer representatives. Rewards are dependent on the extent of attainment and surpassing of performance targets. This performance monitoring, appraisal, and variable reward system is designed to push the customer representatives to actively pursue customers. These are expected to constantly investigate the reasons if a given customer is inactive or does not make use of a competitively strong standard product usable by any customer. This especially applies to commercial retail customers. In E.A.'s words, "the information system capabilities make it almost impossible to not notice the inactive customers."

10.4.4 Business Strategy in the Context of Customer Relations, Marketing, and Risk Management

YKB's primary strategic goal and strength has been the capturing and retaining of a significant market share in all forms of retail banking – in both commercial and consumer variants. This was the core competence of the bank. *Corporate banking had remained as a secondary or a less central and less reliable area*, targeted by a large number of competitors. As a large diversified bank, YKB had not entirely ignored this more competitive segment, however this business line always remained relatively less important.

According to company documents, in 2001, commercial loans (loans to SMEs) constituted 50% of YKB's total cash loans, corporate loans accounted for 31%, and the remaining 19% were consumer loans. The breakdown of non-cash loans, i.e. letters of credit, letters of acceptance and the like, were 60% corporate, 40% commercial (for SMEs). In 2001, the bank had 240 thousand SMEs as commercial banking customers in comparison to 2400 corporate customers.[107]

YKB's strong involvement with retail commercial banking and SME finance must be considered in view of many difficulties associated with this type of business. According to R.Y., "in Turkey, bank loans are concentrated in the large corporate segment. SMEs' share in the national bank loans portfolio is only 10 to 15%. But, banks allocate a greater portion of their resources, both human and other resources, to this segment. Banks did not have much possibility to provide them with credits, because they could not provide any reliable financial information. Currently, banks are working hard on developing solutions for SME finance. This segment will eventually become an important element of national economic development."

According to Se.Ka., "SMEs realise difficulties in providing the kind of collateral demanded by banks. They get forced to use their shop, atelier, and even their house as collateral when applying for credit. Also, in general, because of their technical educational background in the production sector, SME owners possess little business acumen. They cannot produce a decent financial statement. They cannot produce an accurate balance sheet and income statement, and do not know anything about a cash flow statement. They are simply not able to provide the kind information a bank requires…[Therefore,] paid-in capital, payables to shareholders, and payables to suppliers constitute as important a funding source in Turkey as bank credits."

[107] Please note that YKB's grouping and definition of corporate and commercial (SME) customers does not exactly match that of GB. GB uses a finer differentiation and three-fold grouping of firms, consisting of corporate, commercial (medium size firms), and small business clients (see Appendix 13 for details on market segmentation and business lines).

a) *YKB and Retail Banking*

In view of such difficulties, YKB's choice for strong involvement with retail banking can be summarised as follows. Firstly, the already *existing large retail network and YKB's historically strong reputation in the retail segment were an important competitive advantage, not easily cultivatable by many competitors*. Secondly, being a less competitive segment, *the retail business presented greater opportunities for higher profit margins on each transaction*. Of course, wholesale transactions in the corporate segment can represent higher profits per transaction due to much larger size of transactions, even though profit margins are smaller. However, the substantially large number of transactions in the retail segment is considered an important remedy for this problem. Thirdly, *the retail segment also provides a greater opportunity for diversifying risks due to a much greater number of customers and business relations*. Although wholesale customers (large corporations) typically represent less risky credit relations, the overall extent of risk in the retail segment is normally smaller because of higher dispersion or diversification of risks. This advantage normally overweighs the disadvantage of dealing with more risky customers.

E.A.'s explanation was as follows: "Turkey has been going through a fast economic and business transformation with many new firms entering the economy. Because of its organisation structure, YKB can reach these firms very rapidly. Its branch network forms an important advantage in that respect. It tries to utilise this advantage by not ignoring the small and medium size firms and by paying special attention to this segment. Otherwise, it would have been unnecessary to maintain such a large branch network. We have continuously been adjusting and improving our organisation structure in that direction in order to reach them. Our loan policy emphasises diversification of risks over a large number of customers. Therefore, even though it is a difficult segment, we need to be present there, because we maintain such a large branch network. Customers in this segment include both new customers as well as old customers who have been quite loyal to YKB."

According to S.A., "YKB's market share in the retail segment has always been larger than its share in the wholesale segment and continues to be so. We have specific corporate branches, but it has been our deliberate choice not to run too fast in the less profitable corporate line. In Turkey, everybody is after the so-called A-rated firms, holding firms such as Koç firms and Sabancı firms and so on, and the multinationals such as oil companies and drug manufacturers and so on. Because everybody is running after these firms – and these mostly do not use bank credit or use it only for a very short period of time for very specific transactions – they impose prices and dictate the interest rates and commissions. We are also present in that segment – and we have to be present because they have lots of import activity and transact with banks, which have large amounts of foreign exchange-, but profitability is not too high there. We therefore never want to depend too much on these customers. We don't really want to depend on them to call us, asking for money and then negotiating the interest rate from 1% down to 0.5%. As much as possible, we consider the profitability of each transaction independently. Normally each transaction should be profit generating, not only revenue but also profit. If I don't loose an important customer by rejecting a certain transaction, I don't have to engage in that transaction."

In Se.Ka.'s words, "one of the most important factors for competitive advantage in the corporate segment is pricing. Large firms can even get a letter of credit without paying any fee sometimes. This is a very significant thing. As a bank, you bear a risk without getting a return. This is like giving a credit without charging an interest. It is wrong. The other important factor is of course the quality of service, which is important in all segments and for all types of customers. For smaller customers, small firms and individual customers, the personal relationship and service are very important. If a certain customer representative or a branch manager moves to another branch, this might impair the relation of the bank with an individual customer or a small firm. This information comes form a survey YKB has done among 3500 customers. Personal relations are also important in the case of larger firms, but relatively less important in comparison to smaller customers. There exists an inverse relationship with business size. In that segment, the quality of products and services is more important. The size of distribution channel is also a critical factor. A large firm with its head office in Istanbul and production facilities in a remote corner of the country prefers a bank that has ATMs in the area where the production plant is located. If you don't have ATMs in that place, you cannot provide payroll services.[108] YKB realises great advantages from keeping a large branch and ATM network. Its branch network is not the largest in Turkey, but its ATM network is the second largest. If a large firm gets payroll services from YKB and has a large production facility in a remote area, the bank usually places an ATM at that company's production site. _Payroll service is one of the important strengths of YKB_. The bank enjoys a first mover advantage in that area.[109] In short, the size of a bank's distribution network is more important for large firms. It is not as important for smaller firms. Large firms also have a larger supplier network, which may be dispersed over the country. If you have a branch in the place where such a firm is purchasing inputs, you can transfer their payment electronically and without any cost. Such money transfer to another bank's branch takes more time and brings higher costs. Ultimately, cost is the most essential factor considered by large firms."

b) _House-banking in Retail and Corporate Segments_

Here we also need to address the concept of _house banking or main bank relations_. This concept involves three major aspects. One is the longevity and continuity of relations between bank and customer. A second aspect is the volume of transactions handled by a certain bank relative to all other banks with which a firm has a business relation. The third

[108] Being a demand deposit account, payroll accounts significantly contribute to generating zero cost funds. In 2001, YKB had 10% market share in demand deposits.

[109] Competition between banks for payroll accounts is a process peculiar to the Turkish context. In a country where many, notably smaller, firms pay employee salaries in cash, it may be a farfetched expectation that an employee salary is deposited in an account designated by the employee himself/herself. In larger organisations, where such payments are made through a bank, employees are usually not asked but told where their salary will be deposited. This provides banks with an opportunity to negotiate with firms for payroll services. Firstly, banks consider these an important source of zero cost funding. In a high-inflation environment people are quick in taking their money out of these zero interest demand deposit accounts, but even a few days of such zero cost funding can be important for banks. Secondly, and perhaps more importantly, such accounts provide banks with the opportunity to ultimately convert such salary account holders into a full-scope consumer-banking client. As GB's initial bad experience with state firms was a deterring factor slowing down its efforts, YKB, as the pioneer in consumer banking, has been quite aggressive in that regard and left GB quite behind.

aspect is the scope of banking services and products provided to a given firm by a single bank.

S.A. described the limited extent of house-bank or main-bank relations in Turkey in the following way: "*There exists no house-banking culture in Turkey*. There may be a few exceptions, but generally speaking, that is true*. Everyone has a business relation with at least four, five banks, sometimes with ten*. If a competitor demands half a percent less [interest or commission], everybody goes there. Customers have a very narrow perspective. They even not realise that they may be overcharged later for another transaction. There is no customer loyalty in Turkey. There is not much trust, either. In some Western countries, firms often place their daily cash collection in a bag and insert this into the night vault of a bank. In Turkey, even that is not possible. They fear that someone would steal their cash. Turkey is quite backward in these respects… But YKB is in general among the few banks at the top of the list of its customers. *Though these may have a relation with more than one bank and their short-term and narrow vision often leads them to choose another bank, if its offer is half a percent better, they can never ignore YKB*. Yet, they usually ignore the fact that they may no more be able to rely on those competitors in tougher circumstances."

B.Y.'s statement confirms this opinion: "Good customers almost always shop around and never engage in a transaction without getting the price quotes of the largest four banks."

E.A. voiced a slightly different and more optimistic point of view on this subject, but not fully contradicting others' comments on large corporate customers, who have more negotiation power and are more price-sensitive. He put: "We try to provide each customer with as broad a range of services as possible. We want them to get a large bundle of services from us such as loans, foreign exchange, repo (repurchase agreements) and other investments, receivables collection and cash management and so on. If it is a large firm, we try to do its payroll payments, maximise our share in its total bank loan portfolio and its excess cash management. Providing money when they need it and investing their money when they have a surplus. Of course, we cannot get all financial transactions of all customers. *We try* as much as possible to provide everything as a package and *to be the primary bank of the customer rather than its single bank*... If they get a more advantageous price offer from another bank, they may do certain transactions there. However, many of our customers prefer doing business with YKB even in that case. If the price difference is not substantial, they stay with us. They do not go away for only a few percentage points. We have many loyal customers who have been working with us for a very long time. This is because they know that YKB is always on their side, not only in good but also in bad times. While many other banks have been entering and exiting the credit market depending on the changes in market conditions, YKB has always been an active participant and they know that. We realised great advantages from this long-standing policy…*Large corporations are more price-sensitive, because they are generally run more professionally. However, they always contact YKB to check our prices. If they find the price reasonable, they always prefer us*. They usually also prefer us, even when our price is slightly higher... If they must chose another bank, they always tell us that the reason is a significant price difference... *Some small and medium size firms may also be price-sensitive, but our sales organisation is very effective in cultivating good contact and relations with these firms*." In the words of the same interviewee, "before the recent crisis when several banks were overtaken by the SDIF, price-sensitive firms were doing business with the bank offering the most attractive price regardless of that bank's size. Lately, these have started to shop for the best price among the larger banks... Of course, we also had some very old customers who in the past switched to other banks due to extremely attractive prices and concessions of some of our competitors. YKB never makes unreasonable concessions for the sake of keeping a customer. We don't do any business that is not profitable. But many of those returned to us, realising that YKB's service quality and loan policies are better."

The bank also derives synergies from its financial service subsidiaries such as insurance, leasing, factoring, and securities firms (as well as those in telecommunications -internet and cellular communication- services). In S.A.'s words, "because a YKB executive is a board member at each YKB subsidiary, no business deal goes unnoticed and the bank provides the necessary banking services in business deals of its subsidiaries… Any financial service need of firms and individuals, can be met at the bank or at its subsidiaries. We are no more unique in that respect, but we have been the first in accomplishing this [integration]… And all financial service subsidiaries of YKB are among the top three firms in their respective sector."

P.S. also referred to "the importance of providing a large bundle of services to each customer, especially to large firms." In her words, "*alternative distribution channels play and important role in that regard not only in consumer banking but also corporate banking*. Our so-called called Telerom is for example an important tool, YKB's own software, which a corporate customer can use for self-execution of electronic money transfers and payments. It is not like internet, it is a more secure environment than internet. If you sell a customer this Telerom system, it is also likely that you can get its payroll payments. If you have its payroll management, you also have the chance to provide its employees with a credit card. In the longer term, once a given customer depends on you in a number of respects, it also starts doing various other transactions with you, brings in deposits, demands letters of credit, and so on. … And this is not only so in the case of large corporate customers. The largest four banks can only get a small share of the business of the largest 100 firms in Turkey, because these are extremely price sensitive customers. *This is why YKB pays special attention to small and medium size firms. We actually call them 'large firms of the future' and try to do everything we can to support their growth, so that we can capture a large market share in the longer term*. This has been our specific strategy for the last two or three years. In times of economic downturn, such firms may face difficulties. But this kind of strategy requires the cultivation of long-term relations. If you work with them for a long time, you get to know what they are capable of and not. Long term credibility is crucial."

c) House-banking and Risk Assessment

Risk assessment and credit approval and allocation decisions have various aspects and dimensions. These require the analysis of firm-specific financial and business performance and viability, of personal trustworthiness and business ethics, and sector-specific and more general evaluation of the economic and political environment. *The longevity of relations and previous experience with a firm as well as its size and legal form may ease firm- and person-specific assessments, but this is not necessarily always the case*.

As E.A. remarked, "it is of course easier to assess the credibility of a large firm, or a firm which has a long business history and proven performance. But we do not necessarily experience much difficulty in assessing other types of firms either, because we have a good approval process involving various levels [of the organisation]… However, *the length of relations and experience with a customer does not mean that we can take the assessment process lightly*. There is no room for relaxation in credit approval. We always need to be careful. Because we also see firms which have a long business history suddenly going bankrupt."

According to the same interviewee, the assessment of personal trustworthiness and business ethics is essential but more difficult. In his words, "personal ethics plays a crucial role in credit decisions. The firm may have strong financials but its owner and/or manager may engage in untrustworthy behaviour. What I mean with this is the following. If a person uses a credit that was given for a specific purpose for another one, this means bad business ethics. Problem credits typically arise in such situations. When we allocate a credit, we allocate it for the financing of a certain undertaking, and we assess if the credit can be repaid through that undertaking. If a customer uses the credit for another purpose, for example for buying real estate, you almost certainly experience a problem with that customer. In order to prevent such problems we take two types of measures. First, our customer representatives and branch managers try to see, as much as they can, whether a firm uses the credit for the intended purpose or a different one. Secondly, when we make a credit allocation assessment, we can determine if a firm really needs a credit or not. If it really needs a credit, it is likely that the credit will really be used for the business. If it looks like the firm is not really in need of credit, that means, if it is liquid, we then further investigate why it demands such a credit, and we usually get the intelligence that the credit will actually be used for a different purpose. But of course, we also occasionally run into problems, this is inevitable."

According to R.Y, (head of risk control and management unit), *intelligence about a customer's past and present performance and attitude constitute the less difficult aspects of risk assessment, credit allocation, and control processes*. The more difficult problems are associated with uncertainties concerning the future, general economic uncertainties, business-specific uncertainties, and behavioural uncertainties. In his words, "financial analysis is not everything. These constitute an essential aspect of credit assessment, especially if you know the sector well, or have the relevant industry expertise. However, in Turkey banks in general have to work with collateral. There is little open [non-collateral] credit. We therefore have to control all transactions at the property (real estate) registrar on a daily basis to see if another party has any claim on any of the properties of our customers... The collection of intelligence on bouncing cheques, protested promissory notes, and other third-party legal claims on assets of a customer is not difficult. We also get continuous information from the Central Bank on each customer's outstanding credits at other banks. [110] *There is no inaccessible intelligence, if the market is small and if you have been operating in that market over a long time. There is however another, a more complex aspect of credit assessment and allocation. This involves the business-related decisions, volatility and uncertainty*. Can the customer achieve its goals and reach the targeted business volume with the credit you are giving? What can a customer, who has export relations with only two firms in the United States, do, if these two importers stop business? This can happen if a cheaper supplier from another country steps in. Such

[110] Banks are by law required to report all credit assignments to the Central Bank. This information then becomes available to all other banks in the sector. There is no other information sharing mechanism in the sector. According to R.Y. "this is because sharing of information would undermine competitive advantage in commercial and corporate loan business. It is considered an important know-how and cannot be easily shared. We barely started to share our ATMs finally after fifteen years."

business risks are common... Furthermore, there exists too much economic volatility. One year, GNP grows by 9%, the next year it is negative 9%. We have customers who have 40 million dollars of revenues one year and less than 10 million the next year. If you base your credit allocation decision on the 40 million dollars of revenues and give a too large credit, this customer cannot pay you back with next year's revenues. The same type of problem also applies to smaller customers, the entrepreneurial firms with annual revenues of 1 million dollars or less. The problem is the difficulty of reliable forecasting... Another important issue concerns personal reliability and trustworthiness. Lately [during the recent economic crisis] we have seen that people, who had been acting very reliably over many years, tried to escape from their obligations when in serious financial trouble. They thought that they would no more be able to continue the same business. This is a typical example of what we call a prisoner's dilemma. Earlier, people's personal credibility used to be as important as their business success. They used to do their best in every respect in order to maintain their future credibility, the capability to get credits in the future."

Because of proliferation of such problems during the economic downturn during 1999-2001, YKB had not yet been able to realise the full benefits of the organisational renewal program, as of 2002 when this research took place. Each of the three major goals of the renewal program, that is, the improvement of risk management, the improvement of operational efficiency, and the strengthening of the retail base were accomplished to some degree. However, the economic downturn was also believed to have deterred the bank from generating the business volume it originally had hoped for. In B.Y.'s words, "The crises since the end of 1999 have put a lot of pressure on us. Thank God, we had no serious problem.[111] But if it was not for these non-abating economic crises, we could have benefited a lot more from all these initiatives. Because of these non-abating crises, we actually ended up working harder towards maintaining current business volume rather than enlarging it and towards better risk management. However, if we had not taken all these initiatives, our market share could have dropped significantly or we could have had more serious problems."

10.4.5 Competitive Strategies and Operational Mode

Our observations indicate that in the second half of the 1990s YKB has taken up a defender's position in the market rather than an innovator. Through predominantly efficiency oriented technological, process and structural changes, it could combine a very large operational capacity and high efficiency with high work quality, i.e. with accuracy in process control and risk control.

Despite some differentiation and customisation of service and customer relations, it was essentially operating with a mass-market strategy, which implies the delivery of standardised products and services to large sections of the market. To that end, it was relying on its large organisation size and advance technologies that allowed economies of scale and scope and therefore cost minimisation strategies.

[111] As was generally the case in the entire sector, YKB's non-performing loans (NPL) increased during the 2000-2002 economic crisis. Whereas its NPL to total loans ratio had been 2.7%, 1.5%, and 0.8% in 1992, 1994, and 1996, respectively, it rose to 4.3% in 2000 and to 5.5% in first quarter of 2001. Still, this was considered much lower than the sector average during the crisis (10.7% in 2000 and 9.3% in the first quarter of 2001).

With some fine-tuning of operational and service delivery processes, it was trying to stick to the same primary strategic goal, i.e. being an all-round, diversified financial services provider with a focus on retail banking, and to exploit the above-mentioned competitive advantages that it had developed over the years as a large retailer.

10.5 GB during 1995-2000: Full Differentiation

10.5.1 Organisational Expansion and Strengthening Retail Banking

This period was marked by GB's *efforts to strengthen retail banking capabilities to the fullest.* When margins on business loans were narrowing due to increasing competition, GB opted for branch network expansion, in order to take advantage of growing consumer banking opportunities and to enhance business in the small business segment. Using Sul.Kar's words, GB's goal has been "to work with as many customers as possible and with smaller profit margins rather than higher margins but a smaller number of customers".

Like YKB, GB's *new organisational expansion* also followed a substantial downsizing that had taken place in the first half of the 1990s. Between 1994 and 1999, its branch network expanded by almost 35%[112], personnel grew by more than 35%[113]. However, even with such a growth, GB's branch network and personnel accounted for a very modest 3% and 3.1% of the sector in 1999, respectively. In comparison, its market share in total assets was 6.6%. With only this much market share in total assets, GB had *become the third largest private bank* and the fifth largest bank in the sector in 1999, in asset size terms. The year 1999 was also the last year of A. Öngör's ten-year tenure as bank president, during which GB moved to the forefront of the sector.[114] In 1997, GB also had a secondary public offering of its shares at the London Stock Exchange in that year. As of 2001, 40 % of outstanding shares were in the hands of public investors and 60 % belonged to Doguş Group. The bank had four overseas representative and liaison offices, three foreign branches, and two international subsidiaries.[115]

The substantial growth in work force size was a result of not only the growth in branch network but also the large number of people employed for new portfolio teams as well as in the new operations centre. The result of 1471 new recruits in 1997 as opposed to 466 layoffs was approximately 25% rise in personnel alone in one year. Due to substantial surplus of new recruitment over layoffs, following the substantial surplus of layoffs over recruitment in early 1990s, a *different personnel profile had emerged*.[116] Average age and average tenure were, respectively, 31.5 and 5.9 years in 2001. The percentage of personnel with a university degree had gone up from 36% in 1991 to 73% in 1999.

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[112] Up from 168 in 1994 to 231 in 1999 (see Appendix 10).
[113] Up from 3743 in 1994 to 5350 in 1999 (see Appendix 10).
[114] The replacing general manager E. Özen was the vice president in charge of treasury and had eight years of experience with GB at the time of his appointment as president in 2000.
[115] Representative offices in London, Geneva, Moscow, and Shanghai; branches in Düsseldorf, Luxemburg, and Malta; and subsidiaries Garanti Bank Moscow and United Garanti Bank International (Amsterdam).
[116] In the period 1991-1994, 833 people had been recruited in comparison with 2993 layoffs. In the period 1995-1999, there were 4173 new recruits in comparison with 2567 layoffs.

The growth in branch network can primarily be associated with the extra efforts for strengthening the retail base during this more recent period, which also involved a growth in the bank's ATM network to about 5% of the market in 2000 and in POS terminals to over 10% in 2001.[117] The bank also became an important provider in the credit cards market, reaching a 9% market share in 2001. At that time, alternative distribution channels accounted for about one half of total customer transactions and the bank had over 50% market share in internet banking.

GB was one of the banks, which was relatively quick in investing in a large ATM network. At the time of this research, it was continuing to do so, despite efforts for greater collaboration with other banks to share such an expensive network. There were a number of smaller alliances (ATM sharing bank groups), each of which consisting of just a few banks. GB had entered an ATM partnership with three other less dominant players.[118] Such collaborative arrangements have been rather limited in Turkey. [119] According to S.C., this was because the banks that had the first mover advantage in that area, notably YKB and Is Bank, were reluctant to share their networks with other banks. Deprived of such important sources of competitive advantage, GB was trying to create others, in order to be able to remain competitive. Its efforts geared to market segmentation and service differentiation represented an innovative approach in that respect.

Market segmentation and differentiation of distribution channels got a further impetus in this period. This not only included new alternative channels such as internet banking, but more importantly, the branch network was completely redesigned and reorganised by setting up different types of branches for different customer segments. Eventually, GB ended up with five different branch types: corporate branches serving the large corporations, commercial banking branches serving medium-size businesses, individual banking branches serving higher income individuals and small businesses, "acik" (open) branches serving the lower- and middle-income individuals, and some hybrid or full-service branches. At the same time, the bank largely converted its functional organisation structure into a business line / market segment based structure.

The expansion and differentiation of its distribution channels paid off in the sense that the composition of GB's total loans portfolio changed in the direction of consumer and small business loans. It should be noted that this was not because of shrinking corporate and commercial loans but because of a higher growth rate in consumer and small business loans. Whereas corporate and commercial loans had accounted for 43% and 53% of total loans in 1996, respectively, both dropped to 37% by 2000. At the same time consumer loans went up from 4% of total loans in 1996 to 15% in 2000, and small business loans reached 11%.

However, despite tremendous efforts for strengthening retail banking capabilities and an undeniable success in that regard, the composition of the bank's revenues, funds, and fund allocations indicate that GB was still much behind YKB in retail banking. In 1999, funds

[117] Over 41000 POS terminals in 2001.

[118] GB had 600 ATMs in 2000, but the total number of ATMs within the network shared with three other banks was nearly 3000.

[119] The outcome has been expensive for both bank clients and the banks. Clients have to pay a much higher service fee for using the ATM network of another group. Banks keep installing new machines, even if that means a huge number of machines, each owned by a different bank, are located next to one another at any given location.

generation thorough deposit collection was more moderate (53%) in comparison with YKB as well as with previous periods. In comparison with YKB, GB's credits accounted for a more moderate share (31% excluding loans to banks, 40% including loans to banks) within allocated funds. The same applied to loan interest income (21%). It should however be highlighted that, like YKB, its market share of 9% in total profits was much above its share of 5% in total revenues.

GB was not yet able to realise the benefits of its efforts to the full extent. *Like YKB, it had become an all-round financial service provider, however unlike YKB it remained more engaged in wholesale aspects of banking*.

10.5.2 Formal Change Projects

(1) *Quantum Leap Project in Commercial Banking* (1996-1997)[120]: With this project, a new approach to relationship banking approach was developed. Along with the development of a pro-active marketing approach, branch and head office departments were reorganised. 290 portfolio teams were formed, each responsible on average for 90 firms, and the number of daily customer visits per marketing/portfolio team increased from 0.55 to 2.4 in one year.

Following the application of the customer representatives /portfolio teams in consumer and corporate banking segments, this project represented the final and completing step in the application of the relationship banking concept and transformation from a functional to a business line based branch organisation. With the introduction of an elaborate information and control system, an "overwhelming sense of accountability was created for profit and loss and quantitative objectives and results". Having started as a rather simplistic approach keeping track of the number of customer visits and other indicators such as the number of clients in different segments, amount of deposits and so on, eventually it became possible to track the cross-sale numbers of portfolio teams to each customer. The new technology infrastructure enabled such practices, by transforming the older "accounting driven" information system and database into a "customer driven" database and information system. Branch managers' marketing and sales responsibilities were transferred to portfolio teams, leaving the former with mostly the co-ordinating and coaching functions.

Repeating F.O.: " Commercial banking had not been part of our earlier projects and it was time to also do something in commercial banking. We segmented our commercial banking customers into groups such as customers whose main bank (house-bank) was GB[121], customers we needed to actively work with, customers we needed to reactivate, and unprofitable customers who had to be discarded. We started analyzing performance and success in these terms. Our organization structure in commercial banking was also changed to implement the relationship banking concept. We changed our functional structure into a portfolio-based structure and formed portfolio teams. We had 290 portfolio teams organization-wide. However, unlike the establishment of specific corporate branches, we for some time kept commercial banking in the same branch as

[120] With McKinsey & Co as consulting partner.
[121] According to Sul.Kar, about 50% of Garanti's commercial banking customers consisted of firms, which had a working relation with the bank for over ten years. In his words, "commercial banking customers are generally much more loyal than corporate banking customers. They would not go to another bank because of a percentage point difference in price."

individual banking. Customer visit has become an official concept with a systematic (it was more formalized), regulating the frequency of customer visits to different customer segments. In those days, the frequency and number of visits were important indicators and we still keep track of these, but today we also check the content as well as the results of each visit. Such measurements, to a great extent lacking in the sector [in those days], significantly increased managerial effectiveness. Our technological investments enabled us to develop the performance measurement and control system that I mentioned. Earlier we had an accounting-driven database. It was not customer driven. We developed a new information and database system which is also customer 'driven'."

In Sul.Kar.'s words, "With that project we started to estimate the amount of potential business volume of each client. [An awareness of] the main-bank (house-bank) concept [in commercial banking segment] emerged with that project".

Quoting Sa.Ku., "In the second half of the nineties, with the help of the new information system technology, a new, elaborate management reporting system was established. The outputs of that system have been used extensively. Performance management and management reporting through this system became possible at the level of the individual portfolio manager, each business line, the entire bank, as well as each specific branch. It has become possible to measure volumes, costs, customer profitability and so on. Although each business and product line were analysed and rated separately within branches, branches were also rated and ranked in terms of each product and business line, in order to develop a certain sense of competition between branches."

(2) *"Acik" Brand ("Open" Branches)* (1996-1997)[122]: GB's strategies were especially aggressive in consumer banking segment. To fight new entrants to the burgeoning credit cards market, and with the expectation of lower inflation levels, GB targeted, with the "Open" brand, consumer banking customers with low to medium income. This segment was identified as an underdeveloped area with a huge untapped potential. Portugese, Brasilian and South African banks were an important source of inspiration for creating a separate distribution channel for lower and middle-income individuals under such a separate brand. GB's international research and investigation in association with the consulting partners led the bank to use the Portugese, Brasilian and South African banks as a concrete model, because these countries had already gone through the stages of economic development which Turkey was expected to go through in the near future. These countries had achieved economic stability after a long period of high inflation, which Turkey was believed to achieve soon. The bank expected to generate significant revenues from this group of people by providing more simple services. A new distribution channel and brand, Acik (Open), was established. By 2001, GB had 44 of those so-called "open" branches. This also represented the ultimate step in branch differentiation. Besides corporate, consumer, and commercial branches, "open" branches became the fourth major branch type, excluding a small number of hybrid (full-service) branches (see Appendix 13 for branch distribution).

In F.O.'s words: "With segmentation becoming a stable practice at the bank, we have been able to analyze the behavior of our customers much better and realized that an opportunity existed in consumer banking, in middle-income groups. This had been an

[122] With McKinsey & Co and Landor Associates as consulting partners.

underdeveloped area in Turkish banking, these people had never been targeted by Turkish banks before and represented a great untapped potential."

In Sa.Ku.'s phrases, "in Turkey, banks had been targeting the same concentrated group of individual customers. Most of the products were for higher income individuals, who are not that many in Turkey. There existed a huge group of people, which banks had ignored. Granti's customer segmentation project was very unique in that regard. It was a very important step in the establishment of "Open" branches. The bank [still] aims to have this type of branch all over the country."

The bank approached lower- to middle-income individuals first by launching its "Acikkart" ("Opencard") at a time when "having a credit card was still considered an indicator of prestige". Open branches did not have portfolio teams, as their customers were not expected to be in a position to engage in sophisticated discussion and information exchange with bank representatives. They could use any product, but preferably through alternative channels such as internet and ATM machines. The service to that segment was meant to be more standard and simplified. Open branches constituted at the time of this research the majority of Garanti branches.

Quoting F.O., "The credit cards business has grown very rapidly in Turkey, but when we launched our Acikkart (Opencard) to target the middle income segment, this specific segment was not yet targeted by other banks and represented a huge potential. Having a credit card meant a certain prestige in those days. We have grown very aggressively in that segment, but we of course did not distribute cards to everybody without any restraint. We issued a card only if a customer met certain criteria… The major criterion for eligibility for Acikkart (Opencard) is a certain minimum income, but it is not the only one. We established an automatic scoring system, which uses a number of different eligibility indicators. In the majority of cases, this automatically decides on acceptance and rejection. In only a smaller number of situations, a gray area emerges, where further analysis becomes necessary. In a very short period of time, we sold an enormous amount of cards. We first had this single product for middle-income customers. We initially opened about 20 Open Branches, in order to do credit card business only, to issue credit cards and collect the credit card payments. But later, with the "Spot" project in 1998[123], we also transformed this new distribution channel serving the middle income customer segment into a more comprehensive channel, providing a greater number of services to the same segment."

(3) *Central Operations* (1996-1997): Another important concomitant organisational change was the complete centralisation of operations at a single location, in a so-called "operations plant", where the 'production' (i.e. the processing of information, execution of orders, the recording of transactions and so on) takes place. The main purpose was to enable branches to dedicate more time to marketing and sales. According to S.C., "initially, all international trade finance operations were completely centralised in a single, technologically sophisticated operations centre, followed by all other transactions (during the BPR project which is discussed in item (8) below), leaving ultimately a minimal amount in branches… This was enabled through investments in advanced technology and information systems infrastructure… At the same time, the bank was transforming its branch network into an entirely sales oriented distribution channel and

[123] This project will be discussed in Paragraph 7 of this section.

decentralising the credit approval process to a significant extent to its regional offices… Eventually, of approximately fifteen operations personnel in the largest branches there remained only two or three, for handling very urgent transactions. This enabled the bank to realise significant improvements in productivity and work quality without jeopardising the speed of service. This project was carried out without a consulting partner, but by visiting and examining the operations systems of various British and American banks such as Barclays, Citibank, and a few others."

(4) *Investment Centres, Cash Service Branches, and Tele-Banking (telephone banking)*[124] (1996-1997): The investment centres project was geared to providing better services to investors. Special branches with on-line connection to Istanbul Stock Market were opened in order to improve client access to money and capital market instruments. GB became the first bank to provide this kind of service with an entire branch network. Furthermore, to reduce the burden of cash operations and to create greater customer convenience, a cash distribution channel was established and 17 cash point outlets created in central districts. To increase the time that branches can dedicate to face-to-face interaction, a call centre was established. The call centre enabled customers to obtain detailed personal account and transaction information and to carry out money transfer, foreign exchange, and investment transactions, and reduced the call burden of branches by 30%.

(5) *Credit Culture Project* (1996-1998)[125]: To increase asset quality, the bank redesigned the entire commercial loan process (assessment, approval, and granting), and also developed a customer risk rating system.

The advances in information systems enabled the bank to completely replace the "previously slow and labour intensive internal control process by a more reliable automated system". As per Sul.Kar., "the process following the approval of a credit line by the relevant authority has become highly automated. After being set and entered into the information system by the relevant authority, credit limits are highly secure against malpractice. Relevant collateral is controlled by a different group of specialists and the workflow managers are responsible for entering the relevant information to the system. The security and reliability of the whole process is ensured with the assignment of different [authorisation] codes to different people. The system automatically warns the people responsible for credit control and risk management at pre-determined intervals to do further credit checks on the customer. Any type of extraordinary or deviant transaction is detected by the system and shows in the deviations report."

These new capabilities of internal control are believed to have increased the speed and effectiveness of control mechanisms to a large degree. In the words of Sul.Kar, "if it wasn't for that system the bank would have been destroyed, given the rate of growth in our customers. Previously, about 40% of the necessary collateral could be incomplete or altogether absent, now this is reduced to zero."

According to S.C.: "Under the new organisation structure, portfolio teams received the dual responsibility of credit analysis and sales/marketing, reporting (since 2001) to two different regional managers, one responsible for marketing and the other for credit

[124] With McKinsey & Co as consulting partner.
[125] With Pangea Partners as consulting partner.

analysis, approval and control. Similarly, these report to the relevant assistant manager at the headquarters. Neither portfolio managers nor branch managers have the authority to approve credits. Branch managers can approve small amounts of consumer credits, but it is not a common practice, as the approval of consumer credits is centralised and highly automated. Commercial and corporate credits, on the other hand, are approved either by the relevant manager or at the headquarters or by the regional authority, depending on the amount and type of credit. All branch employees except tellers, including the branch managers, have the sole responsibility of marketing and sales. Branches are rather like a sale outlet. The moving of operations and credit approval processes away from branches, have put branch managers into an entirely different function. Their major function has become the co-ordination, coaching and supervision of portfolio teams. In addition to portfolio teams' own sales, profitability and asset quality targets, branches also have a total branch target in these respects.[126] But, in any credit analysis report of a portfolio team, branch managers' opinion is also included. Portfolio managers, branch managers, and regional managers, all actually work often very closely, sometimes doing customer visits altogether."

Regional credit managers received authority to approve credits up to $ 750,000. This amount of delegation is considered as a significant amount in comparison to many other banks, where "general managers have an authorisation for such an amount".[127] As revealed by S.C., "the speed of credit approval can be very high, if the regional credit manager is also present during a customer visit. But all of them [customer rep/portfolio manager, regional marketing /sales manager, and regional credit manager] know their customers well, as a credit relationship is normally established after various visits."

Portfolio teams' dual responsibility of marketing/sales and credit analysis might raise questions about the possibility of conflicting interests. On the one hand, this creates the advantage of close customer contact and knowledge as well as providing the customer the ease of facing and dealing with the same one person rather than many, who are responsible for different tasks. Furthermore, an additional advantage is realised in terms of increased employee motivation through job enlargement. On the other hand, portfolio managers' objectivity might be tampered when doing credit analysis because of their pre-determined sales targets. In order to put this controversial aspect of banking into better perspective, we have to re-consider what credit analysis and credit relations involve in Turkey and how Garanti tried to cope with the difficulties involved.

According to T.S.: "Accurate assessment of asset quality, that is of the probability that a certain loan will be paid back to the bank, has not been possible in Turkey. We still have not been able to establish an ideal credit rating mechanism, because there are so many different variables to consider, and all these variables change too often in an economic environment as unstable as in Turkey… Furthermore, it is extremely difficult to produce a reliable risk assessment of a particular customer, because firm performance is highly dependent on owners' behaviour, except in very large corporations… In small and

[126] According to Sul.Kar., "the overall performance appraisal of each customer representative is produced thorough combining individual scores in a number of dimensions such as sales volume, profits and profit margins, loan delinquency and asset quality and so on. Regional managers review and discuss the performance of portfolio teams on a weekly basis, whereas branch performances are reviewed and discussed by regional and higher level management on a quarterly basis."

[127] Turkish banking law strictly regulates the level of credit approval decision according to the amount and type of loan, but banks have the freedom to delegate such authority to lower levels provided that delegation is within regulatory limits.

medium size segments, official company records are far from reflecting their true performance and resources… You can never trust these… Due to high inflation and the absence of inflation accounting, firm activities are never fully recorded in their books and owners' personal wealth is usually not invested in the company… This requires on the part of the banks an ability to assess the owners' real personal financial strength and viability. The very first criterion that we look at is owners' personal character, business history, and personal wealth. After that come firm performance and sector characteristics… This is why we mostly work with collateral. Sometimes cash (deposits) is used as collateral… There also exist several other difficulties in assessing customer credibility... People apply for a credit for a particular firm but use that in another firm, or use it for an entirely different purpose such as purchasing property. Normally, financial records of all sister firms are analysed, but customers may hide a certain firm, if the people doing the credit analysis are not extremely alert… 60% of firms in Turkey cannot be assessed through objective, formal mechanisms… All that requires quite a bit of spying activity from our portfolio teams in the small and medium size segment and makes the subjective aspect of the assessment process quite important…. That requires highly experienced people with subjective assessment capabilities, people with a sixth sense… If you are not able to properly assess the personal credibility of owners, and this constitutes 60% of the assessment, you are not supposed to rely on objective criteria and numbers, as these may be quite misleading. This is the most crucial area where we as regional credit managers try to provide the necessary support to our younger portfolio team members… When the bank tried a central credit scoring system for small business in 1999, we have seen that this was not the right approach and returned this responsibility to portfolio teams in 2000.[128] Because it required close customer contact and good knowledge of the customer."

According to the same interviewee, "there still exist some shortcomings in the performance appraisal of portfolio teams. Their performance is appraised in terms of sales revenue and profitability as well as credit analysis and control - the former by the regional marketing manager, the latter by the regional credits manager. Because this dual reporting is a rather recent practice (introduced in 2001), the system is not fully developed and needs improvement in certain respects. Firstly, the bank is working on developing a mechanism that takes into account the role of different risk groups when assessing performance in terms of the above-mentioned criteria. Secondly, portfolio teams' efforts and performance in terms of recovering non-performing loans is not followed and taken into consideration in a formal, systematic manner as is done with performance in sales volume and revenues."

Differentiation of credit management and marketing functions at the regional level was a recent phenomenon (took place in 2001), although at the company level it was already differentiated in 1995.[129] Regional managers were previously responsible for both tasks. The overwhelming marketing drive of the bank was visible in the marketing oriented organisation structure and operational routines until recent times (until 1995 at top management level and until 2001 at regional level), when marketing and credit functions were gathered under the responsibility of the same business line manager. It seems that the possible side effects of such authority delegation and decentralisation were somehow

[128] Only central scoring of small business loans was abandoned and that responsibility was returned to portfolio teams. Consumer loans remained subject to central scoring.
[129] Different assistant general managers were responsible for marketing, for credit management, and for risk management. According to Sul.Kar., the separation of the latter two, i.e. credit management and risk management became effective around 1995.

contained through the rooted credit culture and a high degree of formalisation and standardisation of the credit approval process.

As put openly by Sa.Ku., "both the accelerator and the brakes were under the command of the same person". This was mainly due to the desire to "fully understand customer needs, arrange the most fitting credit package, and not lose any customer". Such an overwhelming marketing and sales orientation can become an important obstacle to sound risk management. However, even before the more recent separation of these two functions GB apparently was quite successful in risk management. According to the same person, "effective risk management is not necessarily one of the things that the new management taught the bank. Traditionally, the bank had a deep credit culture with credits being one of its core competencies for a long time. The new management team was however very successful in utilising this strength in commercial banking.[130] There has never been a major credit problem, only small amounts of uncollected receivables [non-performing loans]. They were able to generate significant funds in international markets." The explanation partly resides in this interviewee's own words: "The authority structure, rules and procedures, rights and responsibilities have been clear, codified and sharp. Strict authorisation rules are applied for approving certain amounts of credits. The branch manager has no authority to approve a line of credit. Regional managers can approve credits up to a predetermined amount. Assistant managers do not have such an authority either. For larger amounts of credit, the credit committee has the authorisation and it is one of the best functioning processes at the bank. Credit lines are discussed and evaluated very professionally, objectively, and independently. Credit proposals are always prepared by competent analysts. If the credit committee hesitates to approve a certain line, the regional manager may still defend the proposal, and if the board then approves, a credit line can still be established."

Furthermore, it is also partly to be credited to the 'timely' engagement of the bank (Risk Adjusted Return on Capital project realised in 1995) with the necessary risk management tools. This took place right after the 1994 banking crisis. The bank then decided to use a risk assessment and control system to track liquidity risk, interest rate risk, foreign exchange risk, open position risk and the risks arising from a mismatch of borrowing and lending terms. According to F.O., "risk management systems are a quite new phenomenon in the world. When we established such a system in 1995, Garanti was one of a handful of banks, not only in Turkey but also in the world, with such ability. The EU norms for risk evaluation and management are quite new. These were set in 1998. We have started only very recently to adopt the same norms in Turkey. What we have established in 1995 is based on the same principles as these. … However, even though such a system helps you determine, measure and analyse your risks, such a system does not ensure the elimination of risk. You should not expect managers to take decisions by looking at such reports only. They consider such reports together with the acknowledgements of the highest economic authorities in the country. .. We were faced by a major devaluation in 2000 two days after these authorities' acknowledgement of no devaluation in the short term. It is up to the managers which information to rely on. .. But some banks did not even have such risk management systems at their disposal. This is why the BDDK (Banking Supervisory

[130] We already have noted that, only two of the five presidents in 2002 had been with the bank over twenty years, and both of these were involved with credit management in commercial banking. One of these was in charge of commercial banking credits, the other in charge of credit monitoring and control in commercial banking.

Authority) has finally taken coercive measures requiring the banks to establish such risk control systems and units."

S.Y. (vice president in charge of financial reporting) described the risk management processes at GB as follows:

"A goal as important as revenue and profit growth has been doing that by keeping the right balance sheet composition and preserving high asset quality, both for the bank as a whole and for each branch individually. This was a major principle observed in all projects and incorporated in all planning activities. The asset and liability committee and its weekly meetings steer the funding, placement, and pricing decisions, taking into account, in addition to legal requirements and restrictions, the demand conditions in the market as well as competitive forces. All business lines are represented in this committee. Decisions are taken so as to maintain a healthy overall balance sheet composition in the first place, paying attention to asset quality, profitability ratios, capital adequacy and so on. After agreeing on the overall composition, its specific parts are later discussed separately by relevant unit managers. Funding and placement decisions are not made in isolation from each other. Pricing decisions, and notably the interest rates, are determined in a way so as to ensure a profitable margin after ensuring that legal requirements are met and financial ratios are kept healthy. This means that the bank has never been one of the banks offering the highest interest rates in the sector or providing credits at very low rates, despite competitive pressures to do so. In a sector where deposits are insured by the state, it is otherwise quite easy to engage in interest rate wars, which actually happened often. Banks generally felt quite unrestrained in offering exorbitantly high interest rates. In general, Garanti has been offering rates somewhere in the middle to lower range. The extent of such untamed aggressive pricing strategies of other banks who were less constrained, did not concern or affect Garanti too much and did not induce it to adopt similarly aggressive pricing strategies."

The same interviewee also stressed that the prevalent long-term orientation, of both top management as well as major shareholder, was the major factor contributing to sound risk management. In her expression: "Given the tremendous amount of efforts [investments in technological developments, human resources, and organisational capabilities] for increasing service quality, Garanti's market penetration could have been much higher, had it not been for extreme care for financial strength and sound risk management… The fact that our major shareholders always prioritised long-term viability and success and the managerial professionalism are the major reasons for such an attitude. They wanted to make Garanti not just a major player in Turkey but also successful at world standards… Investing enormous amounts in technology, human resources, education and training during times of high profitability and high revenue growth, as opposed to using the surplus funds in lucrative areas such as government papers, shows the prevalent long-term orientation. This made the bank much less susceptible or vulnerable to crises such as the most recent one. Having to a large extent completed all necessary modernisation investments, we now are able to operate very efficiently, with the minimum number of people possible. We will not have to make investment of such a large-scale for a long time to come. We have perhaps not been the most innovative bank in offering the newest and most innovative products seeking short-term results, but we have been the leader in investing in infrastructure and increasing productivity and service quality… This can to a large extent be attributed to Ayhan Şahenk [main shareholder and chairman of the board] business philosophy. We have always worked with a clear long-term vision but translated it to shorter-term, annual plans and worked towards their realisation in close co-operation with each other. Collaboration, team work, loyalty and attachment to the bank is behind all this."

(6) _Small Business Project_ (1997): Anticipating a macro-economic environment characterised by lower inflation, GB targeted the small business market, which accounted for a large section of commercial banking market, as a separate segment. As a separate business line, this segment was approached with new marketing tools and techniques. Although no specific branch network was created (i.e. firms remained served in consumer banking branches), small business customers were also assigned to specialised portfolio teams working under a specific reporting structure within the "small business" unit.

In F.O.'s words: "The small business project, the separation of small business from consumer and commercial lines, started in 1997. We established a separate business line for small business with a separate line management. Before that, some of these customers were in our commercial banking line, some in our consumer line. We placed our small business representatives, our portfolio teams for these customers, in our consumer banking branches. With Nokta ("Spot") project (next item in this section), we created separate locales within consumer banking branches, differentiated by a different colour scheme. The small business segment has become a segment served in the same way as commercial customers. We give credits, issue letters of credit and provide other international trade products, issue checks, sell insurance etc. But these are firms with annual sales of a maximum of 2 million dollars. Our commercial customers have annual sales between 2 and 50 million dollars and firms above this level (above $50 million) are corporate customers. We have the objective of increasing our loan volume to small businesses, provided that we become convinced of a customer's credibility, the financial feasibility of a project and receive the necessary collateral."

In a way, the small business project is considered as the ultimate step taking the bank back to its roots. Quoting Sa.Ku., "It is possible to speak of the bank's return to its original starting point, to its original identity, which is commercial banking, and not the 1500 to 2000 corporate customers."

(7) _Nokta ("Spot") Project_ (1998-2000)[131]: Through this project, the bank revised the geographic distribution of each distribution channel (type of branch network) in order to optimise potential and actual business volumes in each market segment.

Quoting S.C., "the entire branch and ATM network were reorganized by determining the optimal number and location for each branch type assuming the bank had no existing distribution network, pretending that the bank was being created from scratch."

F.O. described this project as follows:

"When we realized a fast rise in our "Opencard" sales, and we had no major problems in collection during the initial years, we decided to launch a new project in 1998, which was called the Nokta ("Spot") Project. The goal was to analyze and determine the best way of reaching the right customer through the right branch and distribution channel including our call center and internet branch, and to offer the right products at the right location

[131] McKinsey as consulting partner.

(spot). We have done a very comprehensive study of each micro-market in Turkey, by collecting and putting together a huge amount of information from local governments, chambers of commerce and trade and so on. Using the results of that comprehensive analysis, we re-allocated a certain number of each branch-type to each micro-market. Our new national branch network was created in this way. During this process, we re-evaluated our Open brand. We decided that we had to provide the entire set of our products to the middle income segment and turned this credit card focussed business into a middle income segment branch, which now entails the biggest number of branches. We re-allocated our customers to different types of branches. We also established a service hierarchy in order to provide after sale services to customers of higher-level branches in all branch types, up to the level of customers' own branch… Our consumer banking and "open" branches have become the most widespread distribution channels, commercial branches less widespread, and corporate the least (see Appendix 13 for branch distribution). The physical distance between branch location and customer becomes less important in that direction. In addition, although we have such differentiated distribution channels, our customers still can use our entire branch network below their own category, for after-sales services. A commercial banking customer or an individual banking customer can for example use our Open branches to get cash or to deposit checks, but not get a loan there. This requires consultation with a customer representative in a less constrained setting. An Open branch customer, on the other hand, cannot go to a corporate branch and withdraw cash, due to geographic inconvenience and also because we price our services slightly higher in such locations."

F.O. described the process leading to the introduction of "Open" branches as follows:

"Our own international research and investigations and benchmarking activities formed the basis of our segmentation efforts and projects. [132] We were inspired by Portugese and Brazilian banks when we later redesigned our distribution channels. Just a few years earlier, their banking sectors had gone through a similar development process that we were then going through. Their general economic conditions were also quite comparable to ours. They had achieved economic stability after a long period of exorbitant inflation levels. We visited and carefully analysed successful banks in these countries such as BCT in Portugal and Bank Itau in Brasil, which had very good performance after economic stabilisation. We also had a model in South Africa. We already knew a lot about European banks such as Dresdner Bank and Deutsche Bank in Germany, Natwest and another bank in England, as we had close ties with them due to our correspondent banking relations. We also visited a number of banks in Italy. It was obvious that our technology, our practices, our segmentation activities were quite ahead of some European banks in those days, this applies especially in the case of Italian banks. … The Portuguese, Brasilian and South African models have been important sources for inspiration for us in our Nokta ("Spot") project. The Portuguese BCP had a brand differentiation strategy. They had developed different brands for different customer segments in each banking segment, i.e. in commercial banking and consumer banking. They had developed different distribution channels and brands for corporate customers, for individual customers and for small businesses. For middle-income groups, they had established a specific brand and a separate widespread distribution and branch network. They had similar customer segments and distribution channels for commercial customers, too, all working under the umbrella of BCP. We have seen a similar situation in the Brasilian bank, Bank Itau, and

[132] According to S.C., McKinsey was their consulting partner in that project and had the main role in their visits to all these banks to examine their practice and experiences.

the South African bank. The latter had extremely differentiated distribution channels designed to serve the different needs of different customer groups. It was quite clear that it was becoming a widespread practice in the world for banks to serve small businesses and [up-scale] individuals through the same distribution channel."

(8) *Business Process Redesign (BPR)* (1997-1999)[133]: The BPR project aimed to update the first System Development Project that had taken place during 1992-1994. Similar to the earlier project, main targets, critical processes, success factors, and organisation structure were all re-examined and redesigned, and the centralisation of operations was completed.

In F.O.'s words, "since the first Systems Development Project in 1992, a lot had changed at the bank. Technology was one of these. There was a huge difference between the technological infrastructure of the bank in 1990 and the current technology. There had been a tremendous leap in that respect. We needed to adjust our processes according to our technology and make the best use of it. There also had been changes in how we worked due to customer segmentation, due to changes and differentiation in our distribution channels and in our products. All of these necessitated a new BPR project in 1998-99."

In S.C's account:

"At branch level, we formed a separate cash flow management function to manage cash and cashier activities and a separate work flow management function to manage back office process functions. Previously, both of these supervisory responsibilities belonged to one person, which was not sufficient… We eliminated all other operational functions from branches. Even in the largest branches, there are no more than three operations people left… We also updated our queuing system so that it could recognise customers by segments and channel them accordingly… These and other small changes to work processes significantly increased work process and customer service quality in branches… We also had other more general organisational changes. During the BPR project, the bank started to implement the Balanced Score Card concept as a management tool to assess the four major dimensions of overall performance. These were customer satisfaction, internal processes/operations, financial results, and human resources. It took two years to determine which specific indicators should be used to assess the performance in each of these four dimensions and it has become a tool very useful to top management. Individual performance appraisals were redesigned to take into account both individual contributions as well as individual capabilities and potential. Increasing customer satisfaction, and accurately assessing it, has become one of the four major goals. The establishment of a specific customer satisfaction and complaint unit is the first example of its kind among Turkish banks. This is, firstly, due the expectation that customers will eventually be more consciously seeking the most reliable banks in terms of both financial strength as well as service quality. Secondly, if inflation eventually goes down, customer volume becomes the most important factor for profitability. With declining interest rates in a lower inflation environment, margins will become much lower than their current level, pulling down interest rate and price differences between banks. These have been our two major considerations when taking proactive measures to ensure that Garanti should become customers' first choice when comparing banks. With the belief that customers should be

[133] IBM Consultancy Inc. as consulting partner.

steering the bank rather than managers, Garanti has set the new goal of becoming the best bank in Europe in terms of customer satisfaction."

Total Quality and Work Excellence concepts were also important elements of the business process re-engineering project. However, according to F.O.:

"The [formal] introduction of TQM during the BPR project did not mean adopting an entirely new model. The main principles had already been in use since the very first Systems Development project. The principles of customer focus, education and training, communication and the elements of human resource management such as remuneration and career development already had, for a long time constituted the important aspects of management philosophy. These had been the basis and main inputs for change projects. We later realised that these were very much in accordance with the principles of the Work Excellence Model. When we started with our TQM efforts, we did not import and apply a new model. We just inserted already existing practices into the model and tried to improve some of our practices. Our past implementations were easily accommodated by the model."

We already mentioned a few times that investment in and training of personnel were stressed as crucial factors in GB's success. In addition to the systematic entry-level training, the bank also provided continuous training to middle and higher-level personnel. According to F.O., "whereas one out of six people, on average, was previously able to receive one training per year, this number was raised to three training programs on average per year per employee. An average of fifteen days of annual training per employee was something spoken about proudly in TQM work groups."

Having laid out the major project implementations and the underlying motives, we can summarise GB's competitive strategies and mode of operations in a more general way and assess their implications in a more general context.

10.5.3 Competitive Strategies, Operational Mode, and their Implications in an Uncertain Business Context

It must have become clear that, while operating with the basic strategy and business template of diversified, universal, retail banking, GB was trying to differentiate itself from other retail banks through its differentiated customer relations and customised services. Its specific competitive strategy and manner of advantage creation was based on market segmentation and differentiation and customisation of products and services according to the specific needs of each segment. To that end, it could rely on differentiated organisation of customer relations and service delivery processes that allowed diversification in combination with specialisation and customisation. By also being able to make use of advanced banking technologies, it could actually combine differentiation strategies with cost control. For a lack of a better terminology, we could actually also call this a diversified focus strategy. This is because, although having a very diversified customer base and going after various market segments, the bank was able to differentiate its services in each market segment as if being focussed on each segment. Its entire service delivery process and all accompanying structural changes were geared to support the strategy of differentiation of products, services, customer relations and distribution channels. With a highly differentiated horizontal structure coupled with relatively little differentiated vertical authority structure and de-centralised decision-making, the bank could support such a strategy well.

Segmentation and channel differentiation strategy in consumer banking appears to be a viable strategy, given the highly unequal income distribution in Turkey. Using countries such as Brasil and Portugal as an example also seems appropriate given their relevance in that respect. Segmentation and channel differentiation also make sense in commercial and corporate banking, given the large differences between smaller and larger businesses in terms of demands, relations, and risk assessment and credit approval processes. Furthermore, given the low penetration of banking services into the life of an average person, GB's efforts for reaching lower- and middle-income individuals through "open" branches and more standard services can be regarded as an innovative approach. However, this also involves significant risks. This type of branch constituted the largest number of GB's branches in 2001 and the bank was intending to increase the number of branches to over 100. If the favourable results of the economic rehabilitation program realised since the time of this research stretch out over a long-term period, and prove GB's previous expectations true also in the longer term, then this might indeed be a great competitive advantage for the bank. It remains to be seen how much in tune GB's new approach has been with Turkey's general social and economic conditions.

The bank was (as of 2002) unable to realise all desired benefits from segmentation. The country was hit by the most severe economic crisis in history after the completion of this project, most severely affecting such income groups and small businesses. The bank actually had the intention of increasing lendings to small businesses, provided that customer credibility and financial strength is proved. In a way, this also accords well with the original identity of the bank, as it traditionally had a well-established smaller and medium size commercial customer base. While also targeting the larger corporations with its diversified corporate banking operations situated in seven corporate branches, such wholesale banking with the so-called top, is considered rather too competitive a business. On the one hand, the bank considers itself successful in serving such customers, as, according to S.C., it shows to be far ahead of its direct competitors (the largest three private banks) in customer satisfaction surveys. At the same time, this segment was found too competitive a niche to rely on, as these are extremely price-conscious customers with large bargaining power.

GB's extra attention to small and medium business segment does not go without difficulties in terms of credit assessment, approval, and control, while helping the bank to reduce sales exposure large corporations. In general, there is an inverse relationship between ease of marketing and ease of credit assessment and control. While marketing is more difficult in the case of large corporate customers who are very price-sensitive, credit assessment and control is relatively straightforward in that segment, because their financial records are much more accurate… The opposite is true for small and medium enterprises, who are generally less price-sensitive and much more loyal to the bank. In their case marketing is relatively easy whereas credit analysis and control is much more difficult due to above-mentioned reasons.

According to T.S., "the short-term performance of customers is of utmost importance, as any delinquency in the short-term gives the portfolio manager the opportunity to detect a possible problem. It is only possible to observe extraordinary transactions of the customer by checking the interim/quarterly records."

Sul.Kar. explained the difficulties involved as follows:

"When approving a credit, you look at the current financial situation of the company. We have no means to guarantee that the balance sheet composition will remain in the foreseen way. We are not in a position to control or limit firm activities as, for example, German banks can do. We cannot ensure that money is spent for the purpose it is supposed to be used. We have no legal means and remedies at our disposal. All we can do is try to trace what the firm has actually been doing. But we don't have the means to prevent the firms from engaging in unforeseeable activities. This is why we have to work with short-term loans (of course another important reason is the requirement to match term structure of funds and placements) and overwhelmingly on collateral basis. Although non-cash collateral is not really of much use in a high-inflation country as Turkey, it still serves as a deterrent of sorts."

Despite difficulties of credit analysis and control, the extra attention to small and medium-size enterprises was justified in the eyes the interviewees because of two reasons. One was the existence of higher profit margins, in that less price-sensitive and more loyal segment, justifying the risks by higher expected returns. The second justification was the relatively less significant impact of a customer in that segment going bankrupt in comparison with the impact of a bankruptcy in the large corporations segment. Quoting Sul.Kar., "when a large firm goes bankrupt you may lose lots of money, but when a small firm goes bankrupt your loss is much smaller". In other words, lower concentration of risks was an important remedy. Additionally, a sector-wide crisis was considered as being less damaging in general to smaller enterprises. In Sul.Kar's words, "such firms may be less affected from a crisis hitting a particular sector. They are generally more flexible and can divert their activities to other areas. Large corporations normally do not have such ability. They may get severely affected when a sector as a whole is in crisis."

Such a risk adjusted returns approach was an important aspect of the management philosophy at the bank. Though having a positive affect on the overall performance of the bank over the years, it also gave rise to unforeseen problems during the recent economic crisis, especially in the consumer and "open" banking. The targeting of lower and middle-income individuals with the "Opencard" was a courageous radical step in a country with an insufficient infrastructure for credit cards business. Difficulties were many. According to Sul.Kar., there was no well functioning centralised information system for tracking the total credit exposure of banks to any individual customer (for business loans such information is provided by the central bank). The only really functioning aspect of information sharing was in a delinquency situation, which can only serve as a preventive mechanism for future transactions with the same person. The ease of getting many cards from many different banks coupled with the difficulties of tracking the whereabouts of a defaulting person increased the associated risks considerably.[134] Despite such difficulties, banks have been in a race in the credit card and personal loan business. GB was no exception in that regard, believing the risks were justified by the high returns.

Though not being too severe, the impact of the recent economic crisis was not negligible, because the bank had the largest share (25%) in the consumer credits segment, which was hit very hard by the crisis. The overall percentage of problem credits at GB was not higher than the sector average, and the rise during the crisis was partly a result of the shrinking

[134] According to Sul.Kar., GB was subcontracting this job to external lawyers, but some banks were even using retired policemen.

loan portfolio due to related retrenchment /loan containment policies.[135] The rise in the percentage of non-performing loans in consumer loans and credit cards was however real in the sense that this was not due to shrinking loan portfolio, but due to a real increase in non-performing loans. GB's heavy engagement in long-term consumer credits such as automobile credits was due to the expectation that inflation would go down also pulling down the interest rates. This was not a very unrealistic expectation during a period when a series if tight anti-inflationary measures were being taken by the authorities in close co-operation with the IMF.[136] Having recovered a significant amount of such problem loans, the bank was, as of 2001, pursuing a wait and see strategy, believing that it would easily capture 70% of the consumer loan market, as soon as economic conditions improved.

Successful adjustment of acceptable risks for associated returns requires not only a good grasp of associated risks but also a good calculation of returns in each customer segment.

According to T.S.: "Banks in Turkey needed a long time to search a mechanism to measure which customers are profitable and which are not. Banks, which were not able to accurately measure this, incurred large costs. One of the most important reasons of Garanti's success has been its ability to measure that correctly. We were not able to do that well when we were serving all types of customers in one branch. We were then looking at only overall branch profitability, but were not able to differentiate between profitable and unprofitable customers. We first started to determine customer profitability manually. Later, with the advances in information systems we also became able to check the profitability measures of each customer any moment we wish. This enabled us to know which customers to concentrate our efforts on and which customer to avoid. To give an example, it was a widespread practice in the sector not to charge a fee for cheque clearing and promissory note payments if a company held an apparently significant amount of deposit at the bank. As most banks were not able to determine the real costs of such payment services accurately, customers could always find a bank willing to do such favours under high competitive pressure. Being able to assess customer profitability correctly, we started to reject such demands, even if this meant losing a customer to competition. Instead, we concentrated our efforts on improving service quality to profitable customers and increasing their satisfaction. Through segmentation and branch differentiation we were able to adjust our services according to the needs and expected returns from each customer. The rejected customers were however for a long time used to easily finding another bank which would be willing to offer such favourable terms. This was not too difficult in a sector consisting of 70 banks eager to do anything to get and keep more customers. Competitive practices were not restricted with extremely high interest rates on deposits (interest rate wars are an expectable outcome of state insurance on all time deposits) or longer-term consumer loan instalments. Unrestrained competitive practice gave even rise to sector-wide toleration of outrageous customer demands such as

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[135] As was generally the case in the entire sector, GB's non-performing loans (NPL) increased during the 2000-2002 economic crisis. Its NPL to total loans ratio rose to 2.7% in 2000 and 3.0% in 2001. However, this still was much lower than the sector average (10.7% in 2000 and 9.3% in 2001) as well as that of YKB (4.3% in 2000 and 5.5% in 2001). (2001 numbers pertain to first quarter of the year.)

[136] At that time inflation trend indeed had pointed downwards. The later occurring economic crisis was believed to have been ignited by a sudden political crisis. We spare the details of these macro-developments here, as an analysis of the reasons leading to that economic crisis is beyond the scope of this study.

evading the official stamp duty of credit contracts.[137] GB avoided engagement in such activities even if this meant losing customers to competition."

Though being less problematic than consumer loans, credit financing has indeed caused severe problems for many firms during the recent economic crisis. Three major reasons exist for limited equity financing in Turkey leading to an over-debt problem. Firstly, this is a historic habit going back to the times when debt financing was easy and attractive due to negative real interest rates. Secondly, the absence of a legal framework requiring inflation accounting has been a highly discouraging factor contributing to the minimal use of capital and other internal resources. Thirdly, it was also a process spurred by the banking sector, by banks' own competitive race for providing credits. This was an ability that was partly dependent on their own engagement in external financing in international markets. The down side was banks' increased vulnerability to exchange rate fluctuations and devaluation risk. Due to high inflation and interest rate risk, commercial banks have not been able to generate long-term funds in the local market (in general, time deposit terms range between 1 and 6 months in Turkey). They had to either provide credits at the same term structure or, fund themselves through international syndication loans in order to finance longer-term credits.

GB was one of the banks with the highest amount of long-term loans generated from international debtors, in itself a valuable capability, which the bank owed to its superior credit ratings by international rating agencies. The available legal framework had created the possibility to give foreign exchange denominated loans with a two-year term. This was a very attractive financing option for businesses, as they were not obliged to pay back the credits in foreign exchange, thus being widely used by companies not even engaged in any sort of export activity. According to T.S., GB was using this opportunity successfully, by prudently matching the amount and terms of its own foreign currency obligations with the amount and terms of foreign exchange denominated credits it was supplying. It was zealously avoiding open position (higher amount of foreign exchange obligations than foreign exchange receivables) and controlling its own vulnerability to foreign exchange and devaluation risk. Furthermore, as such credits were always secured through collateral, the bank was able to fully protect itself against a possible default of the customer.

However, there existed other problems less manageable by the bank. One was the relative inexperience of businesses in working with such longer-term credits. These loans were often used for financing long-term investments in place of a short-term cash flow deficit, even though a two-year period is normally not a sufficiently long period of time for generating sufficient returns and cash flow from a large capital investment. The second problem was the system-wide default as was the case in the recent economic crisis. As long as the number of defaulting customers are a few, the problem posed can be handled by a particular bank, which is not likely to happen in the case of a widespread economic crisis and failure. This in particular has been the largest problem experienced by businesses as well as banks during the recent crisis. A vicious cycle was created by a major devaluation, leading to problem loans and customer defaults, followed by retrenchment in borrowing and lending, leading to a decline in economic activity, followed by more business failures and retrenchment, and so on.

GB tried to be as accommodating as possible in handling cash flow problems of customers during the crisis by extending the terms of credits. The bank did so to help customers with

[137] The official stamp duty implies an extra tax burden for the customer.

a cash flow problem but whose business was otherwise sound and viable, that is, if they possessed sufficient assets and capital. The rehabilitation of other more problematic cases (when a firm's total assets amount to less than its total financial obligations) requires the injection of a significant amount of long-term capital and funds and calls for a more sophisticated approach. Several banks got together in order to initiate a solution in the form of a special long-term fund. Being the first example of its kind in the country, the set up fund also had the authority to control the activities of such firms in order to ensure the long-term business and financial viability of the scheme.

Despite such solutions, the general and persistent shortage of capital in the economy, including the banking sector itself has nevertheless been pushing banks to search for partnership and merger opportunities with larger foreign banks. GB had already merged in 2001 with another commercial bank owned by its parent group Doguş. Three years after this study, GB also entered a partnership with the Financial Services subsidiary of the American conglomerate General Electric. Fifty percent of GB's non-public shares, shares belonging to Doguş Group, was sold to General Electric Financial Services, following negotiations with several other foreign banks which were interested in entering Turkey. Possessing limited internal resources for further growth, this merger represented a major opportunity for continuing local and international growth.[138]

10.6 YKB and GB during Extended Period Liberalisation: Comparison of Paths of Adjustment during 1990-2000

10.6.1 The Adjustment Processes

We should remember from Chapter 9 that, in comparison with YKB's differentiation strategy based on technology and product innovations and its market-leadership therein during 1980-1990, GB's behaviour and strategy in that earlier period had been characterised as rather inert. Although the bank, as follower, eventually managed to close the gap in technology and product development and to offer the same products after a relatively short time lag, the initial absence of a customer and market oriented banking culture had acted as a strong inertial force, deterring GB from moving to the forefront of the sector until almost 1992. Only through a lengthy process of organisational renewal between 1987 and 1992, the bank overcame the initial inertia. However, as we hope to have shown in this chapter, once the cultural transformation was in place, GB became able to behave increasingly more innovatively, yet in a different manner. It led the sector not in terms of new product applications, but in terms of new ways of organising the bank-customer interface and the adjustment of customer relations and service according to the needs of different customer groups. Differentiating itself from competitors through innovative customer relations and service delivery, the bank then became a significant prospector and eventually a challenger in the sector, pushing YKB into a defender's position.

[138] To this we should add that, as this report was being written, the other case study bank YKB was purchased by Koçbank, a bank jointly owned (with equal shares) by the largest national business group of Turkey and the Italian bank UniCredito. Interestingly, Koç Group had actually sold fifty percent of its Koçbank shares to UniCredito also in recent years.

Furthermore, in this period we also observed that GB was able to combine explorative (core) and exploitative (peripheral, efficiency oriented) changes, whereas in YKB's case exploitational (peripheral, efficiency oriented) changes had taken the place of explorational changes that we had previously observed.[139] Such predominantly exploitational changes implied a very partial and extremely path-dependent change in YKB's case in comparison with the holistic and more radical changes arising from exploration in GB's case. Notwithstanding its more radical and explorative nature, GB's change process still featured a significantly path-dependent aspect, as reflected by its strengthened capabilities for retail banking with small and medium size enterprises.

Table 10.1

PROCESS OF ADJUSTMENT: 1980 to 2000	
YKB	GB
- From Innovator and Leader to Defender	- From Follower to Prospector to Challenger (by first closing the gap in technology and product development and then leading in service innovations)
- *Differentiation* through technology and product innovations	- *Differentiation* through customer relations and service delivery
- *Leadership* in new technology applications and consumer banking products (technology and product innovations)	- *Leadership* in managerial and organisational innovations (customer relations and service innovations)
- *Innovating* by (*explorative changes* through) investing in new technologies and products, entry into new markets	- *Innovating* by (*explorative changes* through) investing in people and their professional development as well as in technology
- *Exploration* (fundamental, core changes) followed by *exploitation* (peripheral changes, efficiency oriented changes)	- *Partial inertia* followed by concomitant *exploration* (fundamental, core changes) and *exploitation* (peripheral changes, efficiency oriented changes)
- *Change* partial and extremely path-dependent	- *Change* holistic and more radical, but still path-dependent

Having laid out this preliminary comparative analysis, in order to place the developments observed in this later period into historic perspective, we will first go over the major observations we made in this chapter. Finally, we will present our major conclusions pertaining to this chapter.

[139] In the previous chapter, we had used the term peripheral change to refer to changes involving less-tightly-coupled domains of retail commercial banking such as the capital markets business. Here, we use the same term to refer also to efficiency-oriented changes or exploitative changes.

10.6.2 Short Overview of Developments

In this extended period of industry transformation, YKB continued to grow under a stable and competent management and a supportive ownership. Thanks to its early, rapid, and thorough involvement with consumer banking, YKB for a long time was able to enjoy its dominance in that lucrative segment. Diversification strategies included the setting up or participation in various related (other financial services such as leasing, factoring) and unrelated businesses. The bank's international resource generation capacity / capability was also enlarged. It was capable of generating medium-term international loans without any state guarantee, thanks to its strong international risk rating. It was the first bank to get an international rating and this was due to the willingness to develop a strong international resource generation capability. Thus, the bank was quite strong in both local and international resource generation.

However, intensifying competition was acting as a counterforce and a drain on resources. A large number of new entries were "permitted" by the state (regulatory void). And a large number of new entries took place due to large profit as well as group financing potentials, and for the sake of prestige and power. In other words, the new entrants were keen on carving a share from the new resource spaces in the sector, but they were also acting on mimicry and a new institutional norm. Furthermore, there was also emulation within the retail segment itself; that is, other existing large and medium sized competitors had also started to enter the consumer banking segment and were competing aggressively. Easily copied homogeneous products did not form a significant barrier to entry into different product markets. Despite these potential threats, YKB was comfortably enjoying the benefits of its earlier strategic decisions and actions, as it was still a very munificent economic environment until 1994. Things would have to change to some extent in the less munificent economic environment after 1994.

Indeed, GB was one of the competitors, which had entered consumer banking following YKB, emulating and competing aggressively. There was also a stable professional management. The owning group was greatly committed to continuously investing in the bank. The general manager had a large personal power and influence, both in steering his fellow managers and in assuring continuous support from the owners. Above average growth and market share increase were necessary for entering the top tier and this was an important goal. Continuously benchmarking the industry leaders (the top three core private banks including YKB), the bank was able to achieve a number of things in a short period under his leadership. Very rapid and high overall business volume growth, especially in consumer banking (credit cards in particular), related and unrelated business diversification (participations) were achieved relatively fast. All these were credited to his ability to transform GB into a marketing driven organisation with the marketing and sales department getting to enjoy high internal power and influence within the organisation. With no doubt, a drastic improvement in human resource qualities, as a result of partly the tremendous efforts for formal internal training and education and partly the replacement of poor performers and those who resisted to adapt to new working conditions and requirements, was the backbone of the new business approach and its success. Another important factor was the improvements achieved regarding the overall (single-loop) learning and adaptive capacity through formal training in organisational change and a stream of change projects.

An important consequence of the large number of new entries, which were mainly targeting the wholesale corporate segment, was that the corporate banking segment was becoming even more competitive than the retail segment. Along with the large number of competitors (because of a proliferation of banks), the larger (corporate) customers were becoming increasingly more price sensitive and more powerful in their dealings with the sector. With pricing being the most important aspect of doing business in that competitive segment, it was not possible to speak of any significant house-banking. This was an important reason for both YKB and GB to direct greater effort and focus on retail banking including consumer banking as well as commercial banking with medium size firms and small businesses (retail banking as basic / general / generic strategy). Although retail business was more difficult, laborious, and costly, it was justified by higher returns and risk diversification, and both banks had many loyal customers in both the commercial and consumer sub-segments. Because there already was also much competition from industry leaders in the retail segment in general, GB chose to direct greater energy towards utilising the greater opportunities in the lower and middle-income segments within consumer banking. This was a sub-segment little penetrated by industry leaders and the higher risks were justified by higher returns. Also, it was expected that the chronically high inflation would eventually be curbed and this expectation was an important factor contributing to the perceived necessity of larger business volume (greater number of customers and transactions) to compensate for the narrowing profit margins.

Both banks had also the more specific goal of achieving above average growth in the small business segment, as a long-term strategy. This particular segment was becoming increasingly more attractive although doing business in this segment was difficult and costly, due to poor information, economic volatility and uncertainty, credit regulations favouring debtors rather than creditors. After all, it still was a seller's market with very high demand and relatively little competition. YKB had already a much higher number of small business customers than GB, in absolute terms, but this was because the bank also had a much larger branch network. GB on the other hand, had aggressive engagements in order to assure access to the most important resource in the long-term.

There were several critical success factors for operating in the retail segment. An important one was the right technology. YKB's capabilities in that respect had been improving consistently over the years. It had been continuously advancing its technology, initially incrementally with the early and full computerisation of accounting and the widespread electronic banking environment. These had to subsequently be followed by drastic investments in technological infrastructure renewal, which we will come back to later. It goes without saying that the substantial physical retrenchment (downsizing of branch network) and the substantial expansion of alternative distribution channels (ATM network with broad task execution capabilities) as well as the move towards a virtual organisation (telephone and internet banking) would have not been otherwise possible.

In order to keep up with industry leaders such as YKB, GB was compelled to raise its technological capabilities to the same level. Technology renewal took place foremost through drastic investments in new technology infrastructure, and GB was able without much delay to complete the online connection of its entire branch network. It was able to set up and, even though moderately, expand an alternative distribution channel (ATM network with similarly broad task execution capabilities) along with a moderate retrenchment of branch network. Moreover, the virtual organisation (telephone and internet banking capabilities) that it was able to establish was at least as solid as that of YKB. In terms of total internet customers and the percentage of internet transactions in total banking transactions, the bank clearly managed to get much ahead of YKB.

At a first glance, what set GB apart from YKB was that it was trying to accomplish a more ambitious, widespread and radical improvement of all its capabilities at a higher speed, so that it could catch up with YKB and its peers. Its starting point in the race had been way behind, but it had been engaged in a large-scale attempt in order to first catch up and ultimately overtake this major competitor. To that end, it was engaged in wide-ranging efforts to renew and develop its capabilities in totality, from the quality of its work force and technology to organisational structures and processes. It was an attempt to take up the challenge of organisational renewal as holistically as possible, although its implementation was incremental and stepwise, spread over the entire 1990-2000 period. The stream of formal renewal and restructuring projects was deep and continuous. Though it may initially not have been the intention, over time such change projects allegedly became an important aspect of the company culture and institutionalised, as was the ideology of continuous learning and improvement.

It should be borne in mind that GB was also hunting for international recognition of performance in terms of profitability as well as financial reliability. In the meantime, international resource generation capability had become an important success factor in the industry and could not be overlooked. The enhancement of international ties, resources, and dependency (note that GB was able to do an international stock sale before YKB) not only required applying specific international norms and standards such as inflation accounting (GB had done this quite early) but also meant that international receptivity was increasing at a more general level. The implications of this were clearly much more visible at GB than in YKB. Almost all reorganisation and process reengineering projects were carried out with the help of major international consultancy firms.

A long stream of process reengineering and organisational restructuring activities were geared towards transforming GB from an operations-driven to a more service, customer, and market driven organisation, and ultimately, to a bank differentiating itself from competitors through extremely differentiated customer relations and customised service (which we will return to later in this section). Although implying much less comprehensive or extensive changes than at GB, some of the objectives that YKB had in common with GB at this later stage led to the application of a number of organisational changes that were similar in essence. It was the umbrella concept of "operational rationalisation" that explicitly formed the overarching strategic goal of YKB and led to a number of process reengineering and organisational restructuring undertakings. The rationality behind the "operational rationalisation" concept was explicitly stated by YKB as: (1) "Further strengthen YKB's retail and consumer base" (notably by cross-selling and house-banking) (i.e. sales efficiency) (2)"Improve operational efficiency" (i.e. process and labour efficiency), and (3) "Quantify and manage business risks more effectively" (risk control and asset quality). Although GB did not make explicit use of the same or a similar concept, i.e. "operational rationalisation", certain aspects of its change program reflected similar objectives, such as improving sales efficiency and effectiveness (i.e. cross-selling and house-banking), effectiveness of risk management and asset quality, and operational efficiency. These major and common organisational goals can be easily associated with or traced back to the more competitive, less munificent, and more risky and uncertain nature of the industry context in mid-1990s. But in addition to these three more common objectives, GB had a more encompassing or broader agenda. Improving the quality and accuracy of internal processes and the quality and effectiveness of customer service were also among GB's primary goals. In both respects, GB had until then been behind YKB, but was aiming to not only catch but also overtake the top-tier banks, including YKB, through high quality, targeted, differentiated, and customised service and customer relations. It was targeting a very broad but finely segmented market and customer base with cost-adjusted services and risk- and cost-adjusted pricing.

The so-called "operational rationalisation" concept adopted by YKB seems to have emerged as actually a response to locally generated needs, i.e. the need to improve overall organisational efficiency and sales effectiveness as well as risk management. Intensifying competition, drain on resources and market volatility and uncertainties were all behind the rise of these needs. At the same time, it involved international modelling of a management concept. Such practices were spreading elsewhere in the world where markets were more competitive and resources more scarce. YKB's international receptivity allowed the transfer of the concept to a context, which was becoming increasingly more competitive and less munificent. It should however be appropriate to state that YKB has not been involved in as extensive an organisational modelling as GB. Some of the changes applied by GB implied extensive and very explicit organisational modelling, such as the fine segmentation and channel differentiation. But even in that case, modelling procedures reflected a carefully deliberated economic and social rationality as well as entailing adjustments.

YKB and GB's <u>similar undertakings</u> in this period can be summarised as follows.

a) <u>Branch level reorganisation</u>:

- *Minimisation of operations and transformation of the branch to a sales outlet*

- *Formation of portfolio teams and transformation from functional to business line (market segment)- specific task allocation and specialisation* (for customised service, customised product development, and more effective relationship management and house-banking)

- *Transformation from branch-specific to business line (market segment)-specific hierarchy and reporting structure*

b) <u>Overall organisational restructuring and process redesign</u>:

- *Centralisation of operations, transformation of branches to sales outlets, and re-expansion of retail network following downsizing and retrenchment*

- *Reengineering of information systems and restructuring of information flow from an accounting- to a customer driven format* (for more effective management of task complexity, improved rational decision making, especially risk-return assessment, enhanced service flexibility and decentralised yet standardised formal decision making, accurate internal control and goal specific performance assessment, and higher personal sense of profitability and accountability)

- *Standardisation, formalisation, and centralisation of risk analysis, monitoring and control mechanisms and processes, and supporting and supplementing these with informal processes, especially in small business segment*

- Both banks had also replaced a significant portion of their branch networks by alternative distribution channels, including *internet banking* (GB was more advanced in internet banking)

- Introduction of specialised corporate banking branches

The changes at GB were more comprehensive, went beyond the above-cited aspects, and additionally entailed the following.

a) Branch level reorganisation:

- *Deeper going and more extensive streamlining of work processes and bureaucracy*

- *More refined or differentiated client (market segment)-specific task allocation and specialisation of portfolio teams*

- *Reduction of branch hierarchy and structural complexity* (whereas the prior vertical differentiation of branch manager and functional managers was abandoned and entirely replaced with a single portfolio team at GB, YKB retained a two-tier vertical structure by transforming its form to include portfolio teams and business line / segment managers)

b) Overall organisational restructuring and process reengineering:

- *Detailed (fine) customer segmentation and introduction of specialised distribution channels (specialised branch network) providing differentiated services (fine channel differentiation)* (at YKB, no special branch organisation was created for different business segments with the exception of a small number of branches for corporate customers

- *Detailed business line (customer segment)-based differentiation of authority, i.e. more refined horizontal differentiation according to market segments* (there was some increase in regional differentiation at top and in the middle within the marketing and sales organisation at YKB, but differentiation according to market segments and creation of different business lines was negligible in comparison with GB)

- *Reduction of overall organisational hierarchy* (although hierarchy was reduced at YKB to some extent at the top and within operations, overall hierarchical structure had remained more stable there, with higher vertical differentiation in middle management)

- *Regional de-centralisation of credit approval, i.e. significant credit authority delegation to regional credit management* (at YKB, this remained lower)

- *At GB, internet banking came to account for as high as 60% of all banking transactions* (more successful than YKB in that regard, probably due to fast penetration of that new technology due to smaller bank size and / or larger efforts)

- *Introduction of risk management system*[140]
    - *Introduction of fine risk management rules and procedures*
    - *Built-in / automated monitoring and control procedures, customer risk rating system and risk adjusted return calculations*

The above-recapitulated differences in organisation structure can also be more broadly reformulated through basic organizational typologies as follows. With a larger organisation size, overall a highly differentiated vertical authority structure and more centralised decision making, but with less differentiated products, services, distribution network, customer relations and horizontal structure, YKB was still featuring a relatively more mechanistic organisation. In contrast, GB had more organic features, with a smaller organisation size, overall a less differentiated vertical authority structure and more de-centralised decision-making accompanied by more differentiated products, services, distribution network, customer relations and horizontal structure.

10.6.3 Specific Competitive Strategies

As already implied by the mentioned differences concerning the extent of differentiation of products, services, distribution network, and customer relations, i.e. the entire service delivery process, the differences in organisation structure were actually quite closely linked with the specific competitive strategy and manner of competitive advantage creation that each bank was trying to implement (see Table 10.2).

Table 10.2

SPECIFIC COMPETITIVE STRATEGIES	
YKB	GB
- Mass market - Standardisation of services - Size and technology - Economies of scale and scope - From differentiation* strategies towards cost minimisation - Focussed diversification (diversified, but strong emphasis/ focus on a major market segment, i.e. retail banking)	- Market segmentation - Differentiation and customisation of services - Customer relations and service plus internet - Diversified specialisation and customisation - Differentiation* strategy combined with cost control - Diversified focus (diversified, but differentiated service in each market segment as if focussed on each segment)

* Here, differentiation refers to “differentiation from competitors”.

YKB was after a mass-market strategy, which implied the delivery of relatively more standard products and services to larger sections of the market. To that end, it was relying on its large organisation size and advanced technologies that allowed economies of scale

[140] It has to be noted that, with the exception of this last item, all of the above cited initiatives meant that GB was taking the change process to a more through and far-reaching level than YKB. The reason that this last item is regarded as an exception, is that, in that regard, GB was actually only catching up with YKB.

and scope and therefore cost minimisation strategies. It was a diversified bank, but with a heavy focus or emphasis on a major market segment, i.e. retail banking. A relatively more mechanistic organisation structure could support such a strategy.

In contrast, GB was operating with a market segmentation strategy, which implied a fine differentiation and customisation of products and services according to the specific needs of each finely differentiated market segment. To that end, it could rely on a differentiated organisation of customer relations and service delivery processes that allowed customer and market diversification in combination with specialisation and customisation. By also being able to make use of advanced banking technologies, it could actually combine differentiation strategies[141] with cost minimisation. For a lack of a better terminology, we could actually also call this a diversified focus strategy. This is because, although having a very diversified customer base and going after various market segments, the bank was able to differentiate its services in each market segment as if being focussed on each segment. Its relatively more organic organisation structure was a great support for such a strategy.

Furthermore, both the different competitive strategies as well as the differences in organisational structure, processes, and routines accompanying those strategies, were consistently supportable with the, both quantitatively and qualitatively, different human resource pools that each bank had developed over the years.

Before we step further into theoretical interpretations and conclusions, a short set of remarks concerning the quantitative indicators of business template and their relation with the qualitative interpretations would also be appropriate.

10.6.4 Banking Templates Indicated by Initial Quantitative Analyses in the Light of Qualitative Analyses

Our initial quantitative analyses had indicated that, broadly speaking, both banks were operating as a diversified universal bank, i.e., as a generalist with respect to commercial versus investment and retail versus wholesale aspects of banking. Yet, important differences were found in emphasis. YKB had diversified funds placement and a very diverse revenue composition. It was not dependent on any single aspect of banking with its diversified resource base. But it was more heavily present in core commercial retail banking domains, i.e. loans, deposits, and services, than GB. It had more retail customers, deposit dominated funding, and more involvement with credits. GB was also doing diversified universal banking, with emphasis on, but less success in, commercial retail banking. It had diversified funding business but less retail customers. It had diversified funds placement, but also greater emphasis on capital markets and direct participation than YKB. It also had less diverse revenue composition, less service and loan business, and more capital market revenues. These mean that in terms of actual performance in core commercial retail banking domains, YKB was more heavily present and successful. Although not operating as a pure specialist, it was nevertheless closer to the commercial end of the commercial-investment banking continuum as well as being closer to the retail end of the retail-wholesale continuum, than GB. It had a greater emphasis and focus on commercial as well as retail banking activities. In comparison, GB was situated closer to the middle in both of these continuums, i.e. exhibiting a higher dosage of activities related

[141] Here, differentiation refers to “differentiation from competitors”.

with both investment banking as well as wholesale banking. It was not operating closer to the other extreme, but in any case with a more hybrid and generalist template than YKB.

Table 10.3 POSITIONING OF BUSINESS TEMPLATES

Specialist: *Commercial*	← YKB GB ———	Generalist: *Universal*	——— →	Specialist: *Investment*
Specialist: *Retail*	← YKB GB ———	Generalist *Hybrid*	——— →	Specialist: *Wholesale*

The difference with respect to retail-wholesale dimension was, actually also rather well supported by qualitative results as epitomised by the "diversified focus" concept describing GB's competitive strategy and the "focussed diversification" concept describing that of YKB.

Even the difference in specific customer segment definitions of each bank was an important indicator of different amount of attention paid attached to different segments. GB' corporate banking line was for example meant to serve a much more specific group of clients, much larger firms, than that of YKB. Clearly, wholesale business constituted a more important aspect of business for GB than for YKB. Notwithstanding this, GB also had an equal, if not more, interest in small and medium enterprises, and had developed all necessary capabilities for serving these segments as well as the consumer segment. Its goal was to become much more active in these retail segments. According to the explanations of GB officials, retail business could have occupied a much larger share in GB's overall business volume, if there had not been a large economic crisis. In their view, the bank actually worked towards and finished the laying out of all necessary working conditions for its targeted strategies. The discrepancy was mainly a result of the extraordinary general economic conditions and crisis, which only represented a transitory situation, expected to disappear once general economic conditions improved. Thus, relatively smaller involvement with retail business was at the same time an indicator of discrepancy between intended and realised objectives. The same applies to commercial versus investment banking dimension. Without the crisis intervening, the bank could have become much a lot more active in credit provision, utilising all its new capabilities to a full extent.

Actually, both banks admitted that the full benefits of the realised organisational adjustments could not yet[142] be realised due to the large economic crisis. At the same time, they also alleged that without the organisational changes realised, it would have been impossible to achieve the same performance levels in such a hostile economic environment. After all, each bank had found a way for achieving satisfactory financial performance in an increasingly more demanding business environment and despite significant extraordinary hurdles posed by extraordinary general economic circumstances.

[142] As of April-May 2002, when the interviews took place.

Each had achieved to combine a high efficiency level and a large operational capacity with a high level of work quality, i.e. accuracy in risk control, accuracy in process control. And despite differences in the utilised means and more specific strategic and operational approaches, both had achieved the same primary strategic goal, i.e. having the capabilities for all forms of retail banking in its commercial and consumer variants.

10.7 Conclusions

10.7.1 Structuration

Outer Structuration

Initially (1990-95) in this period, the external context / system was still providing banks with choice opportunities. It was not having yet an extremely constraining effect in terms of resources and competition. YKB was still trying to include in its action repertoire elements that could shape up the external system, hence constrain the choices of other actors' including GB. Thus, GB was faced with relatively more constraints than YKB, as the latter was an additional source of constraint for GB's choices, in terms of not only resources and competition but also normative forces. Its actions were strongly affected by the external system.

Later (1995-2000), when the external system became more constraining in terms of resources and competition, YKB was faced with the problem of heavier constraints making it difficult to pursue any option. It was not only no more able to have a large effect on the external system and to shape it, but also its actions in certain respects were significantly affected and shaped by the latter. While being confronted still with many external constraints, GB gradually became more able to make better use of choice opportunities, although being to some extent constrained in its actions. It was perhaps not able to have an important effect on the external system and to shape it, but nor were its actions too much restricted and shaped by the latter. This was, by and large, due to the changes that had been produced in its internal system when trying to cope with the external constraints. In a paradoxical way, the very forces in the external system that previously had compelled GB to certain actions, had also given rise to changes in its internal system, which subsequently enabled it to make and execute more choices.

Inner Structuration

We stated above that when the external system became more constraining, this was reflected in YKB's actions. The more its actions became affected and shaped by external constraints, the more its internal system became shaped by the same forces. Just as the external system was posing important constraints to certain actions and in some respects even directly imposing certain actions, its internal system was encouraging and enabling certain actions that could serve as a counter force. However, its internal system was at the same time constraining some of the potential actions that were encouraged or enabled by the external system, hence making YKB's actions less radical as well as extremely path-dependent.

As suggested above, GB's actions were gradually becoming less constrained by the external system, due to changes produced in the internal system when trying to cope with external constraints. In other words, by engaging in actions, which were forced by the external system, GB had been able to shape up its internal system in such a way that this posed less and less restrictions to its action repertoire, leading to more freedom of choice. Somewhat paradoxically, the small amount of power that the bank possessed vis-à-vis the external system has ultimately led to the production of actions that were more radical, but still path-dependent.

10.7.2 Isomorphism and Differentiation

In this period, we observed that the two banks went through various organisational changes that had some commonality, although their specific strategies were not identical. The undertaking of similar organisational restructuring measures such as centralisation of operations, introduction of customer based information and process management, customer /business line /market segment based organisation structuring, channel differentiation for corporate/wholesale business, all hint at a certain amount of influence of common industry recipes and some mimetism (i.e. of external institutional influences). Nevertheless, even within these evidently isomorphic processes various more specific differences were present in the execution, extent, and degree/intensity of changes, preventing complete isomorphism and leading to the maintenance of variation. At the same time, it appears that the greater strategic choice opportunities were also being utilised to a significant extent, as we also observed various attempts for purposeful strategic and organisational differentiation, notably on the part of GB. In short, differences in the specifics of broadly isomorphic changes as well as purposeful differentiation were responsible for persistent variation.

10.7.3 Change and Stability

Heavy involvement with wide ranging organisational changes in neither case implied a break from past strategies. This was the case regardless of the substance, extent, and scope of changes and regardless of their isomorphic or difference creating nature. In other words, there were strong continuities in and path-dependency on prior strategies, strategic successes, and with the resources and competitive advantages these had created. Such was the case not only at YKB, where change was more partial (less extensive), less radical, and mainly involved exploitation (peripheral changes), but also at GB, where change was more holistic (more extensive), more radical, and involved exploration (core changes).

Having laid out the major findings concerning the overall picture of isomorphism and differentiation /variation and stability and change, let us now turn to more specific findings involving also the role of external and internal context.

10.7.4 Explaining Isomorphism

Isomorphic changes (and isomorphism) in terms of (targe)t markets were associated with the utilisation of new resource spaces and mimetism, especially when competitive pressure was high. This type of isomorphism was most evident first in GB's entry into consumer banking by following and emulating YKB, and then in both banks' increasing involvement with and utilisation of small business banking as a new resource space.

Isomorphic changes (and isomorphism) in terms of technology in use, primary organisational processes, and organisation structure were associated with industry recipes, international modelling and mimetism, especially when combined with scarce resources, high competitive intensity, and strong international resource dependencies. This type of isomorphism, though partial, was most evident in, broadly speaking, similar undertakings of YKB and GB during the latter part of the 1990s.

It should be stresses that, although the external context was having important isomorphic effects and pushing the two firms closer to one another, firm level resource and institutional differences were having an interfering or counter-effect. These led to differences in the scope and intensity of essentially isomorphic processes, in the specifics of applications that are similar in a broader sense (at a more general level), as well as in experienced need and desire for differentiation. The latter was an important factor leading to a search for specific external pockets, which could enable differentiation. More specific aspects and conclusions concerning variation are stated below.

10.7.5 Explaining Variation and Differentiation

Variation was a result of intentional and purposeful differentiation as well as of differences in the execution, extent and degree of changes that were isomorphic in a more genera, broad or crude sense. The former, i.e. purposeful differentiation involved and led to variation in markets, marketing and sales strategies (specific strategies and means of competitive advantage creation) as exemplified by the GB case. The latter, i.e. differences in the execution, extent and intensity of crudely isomorphic implementations mainly involved technology in use, primary organisational processes, and structure.

In both cases, the underlying reasons of variation included a combination of the following factors:

- Differences in organisation size and market power
- Differences in human resource qualities and development
- Differences in management philosophy and company culture
- Differences in openness to international models and influences
- Differences in international aspirations and dependencies

An additional reason for variation in primary organisational processes and structure resulting from differences in the execution, extent and intensity of isomorphic changes was:

- Differences in target markets, marketing and sales strategies (i.e. more specific strategies and means of competitive advantage creation) (which was a result of an attempt for purposeful differentiation).

Although each of these factors contributed to variation in business template and operational mode,

- Smaller market power and a large need for performance improvement and competitive advantage creation were fundamental for *intentional and purposeful differentiation,* as exemplified by GB case.

10.7.6 Explaining Change

The differences in the scope and intensity or the *radical nature of changes* were also associated with the same factors summarised above. The scope and intensity of changes were much higher in GB case than in YKB.

Like intentional and purposeful differentiation, *fundamental and core chang*es (i.e. exploration) were also more closely linked with smaller market power and a large need for performance improvement and competitive advantage creation. In other words, intentional and purposeful differentiation involved fundamental or core changes (i.e. exploration) as exemplified by GB case. And the same factors underlying intentional and purposeful differentiation, i.e. smaller market power and a large need for performance improvement and competitive advantage creation, were also closely associated with the latter, i.e. *exploration and fundamental and core changes* (as exemplified by GB case).

In contrast, *efficiency oriented peripheral changes* (i.e. exploitation) as exemplified by both YKB and GB, were more closely associated with isomorphic change, but not with full isomorphism due to the reasons explained above.

10.7.7 Explaining Path-dependence

In addition, the extent and intensity, or the radical nature of changes were also associated with path-dependencies, especially with prior strategies, strategic successes, and the resources and competitive advantages these had created. Fewer and less intensive, thus less radical, changes implied higher path-dependence in general as exemplified by YKB case. However, this did not necessarily preclude *radical and/or explorational, but path-dependent change*, in the sense of sticking to the same generic strategy and business template, while applying different and new competitive strategies and using new means of competitive advantage creation. This was exemplified by GB's attempt to stick to commercial retail banking despite utilising new strategies and means of competition.

10.7.8 Combination of Opposites

A further observation was that isomorphic change (and isomorphism) and divergent / differentiating change (and variation) can take place sequentially as well as simultaneously. In the first case, firms resemble and differ from one another in terms of the same dimension of comparison, but at different points in time. In other words, they can be both isomorphic and different concerning exactly the same aspect of comparison in a sequential way. In the second case, firm similarities and differences are in terms of different dimensions of comparison, but are in effect at the same time. In other words, they can be both isomorphic and different simultaneously, but concerning somewhat different aspects of comparison such as general business templates vs. specific competitive strategies and markets and products vs. technology, primary organisational processes, and structure. We have observed both sequential and simultaneous types as well as some link between the two. That is, the more similar firms become in a given domain, the more likely it can be that they simultaneously try to differentiate themselves in another domain, and /or, subsequently in exactly the same domain.

Table 10.4	YKB - AT THE END OF INITIAL PERIOD OF LIBERALISATION
Main Goals	Maximisation of commission and fee income (minimisation of dependence on interest revenues) Minimisation of costs through low-cost funding (demand deposits) Risk diversification through large and diversified customer base
Main Business Domain	Diversified universal banking (generalist) with emphasis on commercial and consumer banking Advanced consumer banking products
Mode of Operation	Strong retailer: predominantly service intensive retail banking with many small customers Large organisation and retail network Dispersed operations (at branch and regional level) Complex organisation: threefold horizontal differentiation (functional, partially market segment /business line based, and regional) and very fine vertical differentiation (very steep hierarchy) Centralised management and decision making with some decentralised credit decisions at regional level
External Context	Complex, dynamic and more competitive, but munificent environment YKB dominant retailer due to - Strong technology and products and scale advantages (consumer banking and large distribution network -branch and ATM) - Diverse, abundant, and low cost resources - Innovation, differentiation and first mover advantages But creating its own competitors (realising mimetic pressure)
Internal Context	Powerful, competent management with innovative approach Moderate human resource qualities Same level of revenues per branch and per employee as GB
	GB – AT THE END OF INITIAL PERIOD OF LIBERALISATION
Main Goals	No clear performance criteria, except growth in all domains
Main Business Domain	Diversified universal banking with emphasis on commercial banking
Mode of Operation	Hybrid strategy: retail banking entailing significant wholesale banking characteristics An in-between form: not a specialised wholesale bank, not a true retail bank - initially trying to survive by diversifying into wholesale banking (esp. lucrative government finance business) - and combining this with existing basic commercial retail banking capability, esp. in rural areas Medium size organisation and retail network Dispersed operations (at branch and regional level) Simple organisation structure: predominantly functional structure Centralised management and decision making
External Context	Complex, dynamic and competitive, but munificent environment GB trying to follow and compete with large universal banks such as YKB - with no clear strategy and competitive advantage - no specialisation - except some historic commercial banking competencies with smaller firms - mainly by supporting existing business by tapping new resource spaces in wholesale investment banking (capital markets) - and by mimicking consumer banking products and services
Internal Context	Mediocre technology Competent but less powerful management Mediocre human resources Continuing resistance to organisational change Improved overall financial performance and expanded overall market share Same level of revenues per branch and per employee as YKB

Table 10.5 YKB IN EXTENDED PERIOD OF LIBERALISATION - FROM LEADER TO DEFENDER	
Main Goals	Cost efficiency (operational and labour efficiency) Sales efficiency and effectiveness (cross-selling and house-banking) Risk control and asset quality Customer growth in SME segment, sales growth thr. house-banking in all segments
Main Bus. Domain	Diversified universal, but predominantly retail commercial banking
Mode of Operation	Drastic downsizing followed by drastic expansion Drastic expansion of ATM network and introduction of virtual organisation (telephone and internet banking) "Operational Rationalisation" (process reengineering and organisational restructuring - reducing complexity and increasing flexibility through new MIS and automation capabilities) entailing: - reengineering of information systems and restructuring of information flow (from accounting to customer driven) - personnel reallocation fr. internal operations to boundary spanning functions - centralisation of operations and transformation of branches to sales outlets - reducing top level hierarchy - stable overall hierarchical structure with high vertical differentiation in middle management, but increasing regional differentiation - introduction of specialised branches for corporate customers, but market segmentation, channel, business line, and service differentiation much less than GB (has very diversified customers, but less diverse customer groups, i.e more focussed on fewer but larger market segments) - transformation from functional to client (market segment)-specific task allocation and specialisation, introduction of portfolio teams, transformation from branch-specific to business line (market segment)-specific reporting structure (keeping a two-tier vertical differentiation of authority) - standardised, formal, centralised risk analysis, monitoring and control mechanisms and processes supported and supplemented with informal (personal), less standard processes, especially in small business segment
External Context	Intensifying competition and mimetism, less munificent environment after 1994 - large number of new entries "permitted" (regulatory void) - large number of new entries due to large profit potential, group financing potential, for prestige and power (new resource space as well as institutional norm and/or mimetism) - emulation in the retail segment (other existing competitors (large and medium sized) entering consumer banking and competing aggressively (easily copied homogeneous products enabling rapid market entry) - corporate banking segment becoming even more competitive due to larger number of competition and increasing customer power and price sensitivity YKB for some more time enjoying dominance in retail banking and first mover advantages in consumer banking International resource capacity - medium-term international loan generating capability without government guarantee (still very strong in financial resource generation, locally and internationally) - first in getting an international risk rating (initially for loan generation, international stock sale is later than GB) Emergence of the "operational rationalisation" concept - locally generated needs, international modelling of an idea - international receptivity (but less extensive modelling)
Internal Context	Stable management and supportive ownership Continuously advancing technology and enhanced capabilities - initially incrementally, followed by drastic renewal of technology infrastructure Moderate improvement in human resource qualities

Table 10.6 GB IN EXTENDED PERIOD OF LIBERALISATION - FROM PROSPECTOR TO CHALLENGER	
Main Goals	Internationally recognised performance (profitability and financial reliability) Rapid and high growth and market share increase, entering the top tier (through new customer growth as well as house-banking in all segments) Cost efficiency (operational efficiency and labour efficiency) Sales efficiency and effectiveness (cross-selling and house-banking) Quality and accuracy of internal processes Quality of customer service Effective risk management
Main Business Domain	Diversified universal banking, retail and wholesale Very high growth in lower to middle income consumer banking (esp. credit cards)
Mode of Operation	Drastic downsizing followed by drastic expansion Online connection of all branches completed first Moderate expansion of ATM network Introduction of virtual organisation (telephone and internet banking) Process reengineering and organisational restructuring (from an operations to service driven organisation) (for targeted, customised, differentiated, high quality, and efficient customer service, cost control, and risk control) entailing: - reduction of overall hierarchy - reduction of branch level structural complexity (reducing branch hierarchy, transformation from functional to client (market segment)-specific task allocation and specialisation, introduction of portfolio teams, streamlining of work processes and bureaucracy) - detailed business line /market segment-based horizontal differentiation - centralisation of operations and transformation of branches to sales outlets - regional de-centralisation (significant credit authority delegation to regional credit management) - detailed (fine) customer segmentation and introduction of specialised distribution network (branch network) providing differentiated services (fine channel differentiation) (a very broad and diverse target customer group necessitating finer segmentation and differentiation) - reengineering of information systems and restructuring of information flow (from accounting to customer driven) - introduction of risk management system (introduction of fine risk management rules and procedures and built-in / automated monitoring and control procedures, customer risk rating system and risk adjusted return calculations) - standardised, formal, centralised risk analysis, monitoring and control mechanisms and processes supported and supplemented with informal (personal), less standard processes, especially in small business segment

Table 10.6 (continued)

External Context	Intensifying competition - large number of new entries "permitted" (regulatory void) - large number of new entries due to large profit potential, group financing potential, for prestige and power (new resource space as well as institutional norm and or mimetism) - emulation in the retail segment (easily copied homogeneous products enabling rapid market entry) (GB just one of the competitors entering consumer banking following YKB and competing aggressively, benchmarking industry leaders) - corporate banking segment becoming even more competitive due to larger number of competition and increasing customer power and price sensitivity GB directed towards the greater opportunities in the lower and middle income segments within consumer banking and SME segment - low penetration by banks, higher risk justified by higher returns - expectation of lower inflation - need for higher business volume (customers and transactions) - lower to middle income segments in consumer banking and SME banking Enhancing international ties, resources and dependency - international stock sale earlier than YKB International receptivity and modelling - early application of international banking standards (inflation accounting) - extensive explicit organisational modelling (fine segmentation and channel differentiation) (with minor adjustments) - rational modelling procedures (economic and social rationality) Introduction of risk management system before any legal requirement
Internal Context	Going public locally Stable management and supportive ownership: - Powerful professional management - GM with very high personal power and influence - Owning group committed to the bank (continuously investing in the bank) Marketing driven organisation (high internal power and influence of marketing) Human resource renewal and drastic improvement in human resource qualities Improving learning and adaptive capacity through formal training and change management projects Innovation and change - Service innovations - Widespread and rapid application of new banking technologies and products - Several incrementally applied formal renewal projects - Institutionalisation of change projects and continuous improvement ideology Technology renewal - Drastic investments in new technology infrastructure

Table 10.7	YKB – AT THE END OF EXTENDED PERIOD OF LIBERALISATION
Main Goals	Sales efficiency and effectiveness (house-banking) Cost efficiency and scale economies Effective risk management Long term strategy: higher penetration and growth in SME segment
Main Business Domain	Diversified universal banking (generalist) with strong emphasis on commercial retail banking High attention to SMEs
Mode of Operation	Still a strong retailer - Core competence and primary strategic goal: all forms of retail banking (commercial and consumer variants) - Mass market strategy: little segmentation, little differentiation and customisation of service - Large organisation and retail network (conventional and alternative channels) - Internet banking not as successful as at GB Complex organisation (despite more simplified structure and processes): business line differentiation lower, but regional differentiation and middle- and branch-level vertical differentiation higher than GB More international subsidiaries than GB
Eternal Context	Less munificent environment Corporate banking: too competitive - large customers with high negotiating power, high pricing sensitivity, little house-banking (buyers' market) More opportunities in SME segment - high demand, not very competitive yet, less price sensitivity, more loyal customers (sellers' market) - but difficult and costly (poor information, economic volatility and uncertainty, credit regulations advantageous for debtors and disadvantageous for creditors) YKB has less power in corporate segment more in retail segment - Loyal customers in both commercial and consumer segments - More difficult, laborious and costly, but justified by higher returns and risk diversification YKB Defender (still strong but less dominant) - not dependent on any single aspect of banking (diversified resource base) - very strongly present in core commercial banking businesses (loans, deposits, services) - still very strong in electronic banking (ATM, POS, credit cards) - scale and efficiency/cost advantages (to be solidified by house-banking) - but internet banking may increase the threat of smaller retail banks such as GB
Internal Context	Good financial performance Advanced technological capabilities High efficiency coupled with high excess operational capacity High work quality: accuracy in risk control, accuracy in process control Moderate personnel quality and moderate investment in personnel (in line with mass market strategy)
Compet. Advantage Creation	From differentiation strategies towards cost minimisation Technology Mass market Economies of scale and scope Standardisation of services Focussed diversification

Table 10.8	GB - AT THE END OF EXTENDED PERIOD OF LIBERALISATION
Main Goals	Sales efficiency and effectiveness (house-banking) Operational efficiency Effective risk management Higher growth in SME and consumer segments
Main Business Domain	Diversified universal banking with emphasis on but less success in commercial retail banking, still a hybrid of retail and wholesale banking High attention to SMEs and consumers
Mode of Operation	Primary strategic goal: all forms of banking (corporate, commercial, and consumer variants) Medium size organisation and retail network (conventional and alternative channels) Differentiated strategies (segmentation and customisation), service and products, distribution channels, and organisation structure Successful internet banking Business Line differentiation higher, but regional and middle- and branch-level vertical differentiation lower than YKB Fewer international subsidiaries than YKB
External Context	Less munificent environment Corporate banking: too competitive - large customers with high negotiating power, high pricing sensitivity, little house-banking (buyers' market) More opportunities in SME segment - high demand, not very competitive yet, less price sensitivity, more loyal customers (sellers' market) - but difficult and costly (poor information, economic volatility and uncertainty, credit regulations advantageous for debtors and disadvantageous for creditors) GB has less power in corporate segment more in commercial and SME segments - loyal customers in commercial and SME segments - more difficult, laborious and costly, but justified by higher returns, better risk diversification, and more house-banking opportunities - more aggressive engagements to use higher opportunities in SME and consumer segments - but trying to be present and house-bank all segments through differentiated channels and service
Internal Context	Good financial performance Advanced technological capabilities High personnel quality and high investment in personnel High operational efficiency High work quality: customised service, accuracy in risk control, accuracy in process control
Compet. Advantage Creation	Differentiation strategy combined with cost control Customer relations and service Market segmentation Diversified specialisation and customisation Differentiation and customisation of services Diversified focus

PART - IV

OVERALL DISCUSSION AND CONCLUSIONS

Chapter 11

Overall Evaluation and General Conclusions

11.1 Short Overview of the Macro Study Results

The major findings of the macro-level study were the following.

Core banks were more inert and most of the change came via the periphery, however, not necessarily, or always, via new banks. This also meant, old banks are not necessarily inert, unless they are in the core. Although core appeared to some extent to follow periphery with some time lag, both the scope and extent of changes were much smaller in that group, giving rise to persistent differences between the two groups.

There was also some evidence for time-related variation in strategic diversity and specialisation in the sector. Some difference observed between ownership groups provided support for the role of social dependencies and the associated partitioning of resources. However, in general diversity appeared to be higher in the periphery than in the core. In the latter group, important differences existed between state and private banks as well as among state banks, but private banks were highly isomorphic with one another. Difference in interdependencies between core banks and their stakeholders as well as in their resource base appeared to exist between state banks and private banks as well as among state banks. On the other hand, although fewer and less significant differences were apparent in the periphery between private and foreign banks and between new and old banks, the overall variety was much higher. These observations suggested that isomorphic forces were not necessarily the most important or primary factor shaping strategies and strategic changes.

At a more general level, we stated that relative stability/inertia and isomorphism both were closely linked with core banks, and therefore coupled with each other. In contrast, both change and diversity were more closely linked with peripheral banks, and therefore also inter-related. In other words, change actually led to increased diversity in the sector in general and among peripheral banks in particular. At the same time, isomorphism was also observed, where it originally had prevailed, due to relative inertia and stability. In other words, stability was observed in both isomorphism and diversity in that they had a stable link with the same actor constellations over time, i.e. stability in higher isomorphism in the core and stability in higher variation in the periphery.

We argued that diversity in the periphery had been a result of greater choice alternatives, as these enabled firms to chose different combinations from available alternatives, both qualitatively and quantitatively. And since peripheral actors were more prone to exploring new alternatives and possibilities, they also gave rise to greater diversity, even though, from a more superficial perspective it looked like they were trying similar practices. In other words, even though peripheral banks were actually more susceptible and open to change and isomorphic influences, that did not result in greater isomorphism, because of an increase in resource spaces and choice alternatives. Notwithstanding these, it was also not possible to infer a significant systemic difference in resources and resource dependency relations between relational groups within the periphery. The differences appeared rather more company specific. This was because our findings had indicated no overwhelming difference between these groups, and variation between such groups was not higher than variation within.

At the same time, the persistent isomorphism at least within the group of private core banks, appeared to be mainly the result of greater inertia and path-dependent change as opposed to isomorphic change.

11.2 Short Overview of the Micro Study Results

In the micro study, we have observed that the historic paths of development of the two banks have sometimes got closer, sometimes further apart, that they sometimes intersected and sometimes diverged. We found out that they sometimes were involved in similar actions, in the face of common or similar external and internal constraints and opportunities, but also in dissimilar actions in the face of common constraints and opportunities.

We observed coexistence and interplay of isomorphism and differentiation. The two banks, although operating as universal retail banks and with the overall generic strategy of business diversification, had somewhat different approaches and different combinations and sequencing of approaches, in terms of the more specific means used. In confronting similar challenges, they took clues from industry recipes and tried to follow the state-of-art. While doing so, they also found the ways and means of differentiating themselves in terms of the more specific competitive strategies and ways of competitive advantage creation. They have done so within the limits of their own internal and external resource constraints, but they also pushed and loosened those limits to a significant extent.

We hope also to have established that most of these actions were path-dependent actions or gave rise to path-dependent developments. This was especially true in the case of tightly-coupled aspects of organisation strategy, structure, and processes, even when these implied core changes. Concerning relatively less tightly-coupled aspects, we could observe relatively less path-dependent, but not necessarily more radical actions and changes. The more path-dependent actions were also more closely associated with deeply institutionalised basic routines and core competencies, which at the same time were being utilised as an important resource and an important strength to build on.

Another important finding was that, with the right capabilities for externally generating the significant generic resources, such as state-of-art technology, human resources, management talent and know-how, it may be possible to assure organisational effectiveness. It may be possible to even generate greater power and attend a more advantageous market position. However, even then, such generic resources were utilised so as to maintain continuity at least in general business strategy and template and in more fundamental competencies and institutionalised strengths.

Finally, it might be useful to underline that, with the above remarks, we do not mean to imply that core or explorative changes are path-independent or radical changes. Quite to the contrary, as these are likely to involve core competencies and more tightly coupled aspects of organisation, they are also likely to be path-dependent changes. The opposite would apply to peripheral changes.

In short, the most general and basic moral of the micro-level story is that change is to a great extent path-dependent and isomorphism is only partial.

11.3 Bringing Together the Macro and Micro Studies

Let us now try to bring together the more specific outcomes of the macro (Chapter 6) and micro studies (Chapters 8, 9, 10), so that we can discuss consistencies and inconsistencies as well as their supportive and complementary aspects.

Before discussing however the details of the theoretical results of the two studies, it may be appropriate to provide some comment on the implications of using different types of data. In the case studies of the two banks, we were fortunately able to triangulate between quantitative and qualitative data. In some respects, we were confronted with some inconsistencies between quantitative and qualitative observations. More specifically, through the initial quantitative analysis, we initially could not discern significant aspects of change that we could recognise through more in-depth qualitative analysis. This particularly applied to the YKB study. At the same time, we also initially attributed greater significance to changes, which were detected through quantitative analysis, but were later characterised as peripheral changes in the light of the more comprehensive and deeper-going interpretations of the qualitative data. This particularly applied to the GB study. Through triangulation and holistic case analysis we were however, to a large extent, able to interpret such discrepancies in data in a theoretically more consistent way. There may be at least two kinds of possible ramifications of these insights for the earlier drawn conclusions of the macro-level study. The first ramification could be that the two studies might not be found fully comparable. The second and more serious ramification could be that the results and theoretical interpretations of the macro study might be considered less valid. In our final remarks, we therefore try to address both of these potential problems or concerns.

Let us now go back and compare the findings of the two studies period by period.

11.3.1 Pre-Liberalisation Period Macro Study Findings

The two major observations concerning the pre-transformation period were the high level of stability and the significant isomorphism within the group of core private banks. There was some minor change in mainly the periphery and especially in foreign banks. There was some difference in styles of different ownership groups, but that was also coupled with high variation, except in the group of core private banks linking these with a stronger retail approach. In that respect, they were different from most of the foreign and other private banks in the periphery. Variation was also quite high among both core and peripheral state-owned banks, linking some of these with core private banks and placing others in quite unique positions.

11.3.2 Pre-Liberalisation Period Micro Study Findings

Overriding theme at the pre-transformation stage was isomorphism between YKB and GB.

Our interpretation of the main or direct causes of those predominantly isomorphic templates entailed a combination of ease of resource generation without organisational and strategic differentiation (favourable resource dependence relations), resource homogeneity, and the simplicity of tasks (simple and stable task environment). All three of these contextual factors were viewed as a fundamental consequence of the economic and financial regulations that applied at that time, and therefore of the more general institutional context. Altogether, these three major factors were considered responsible for the general ease of organisational performance and effectiveness without necessitating much organisational differentiation, which in turn implied isomorphism.

We also had established that, even though being of minor importance, some differentiation between the two firms had nevertheless accompanied isomorphism. We associated these mainly with company-specific institutions (management philosophy, values, and company culture) favouring the development of company-specific resources and competencies.

At a more general level and as an extension we stated that the external context was having a strong isomorphic push (pressure), i.e. pushing the two banks close together. By the external context, in the first place we implied the more immediate resource and task environments, which had a very direct effect on organisational practice. However, it was ultimately the more general institutional environment that was shaping the resource and the task environments and having an indirect yet overarching effect on organisational practice. We also put that the internal context was having some differentiating effect, i.e. pulling the two banks apart. By the internal context, in the first place we implied the company specific resources and competencies, which had a direct effect on organisational practice. Again, it was ultimately company specific institutions, which were shaping the company specific resources and competencies and having an overarching effect on organisational practice.

11.3.3 Pre-Liberalisation Period Combined

The findings of the two studies are in general supportive, particularly concerning the predominance of isomorphism among core private banks. Although GB was in that period not yet classified as a core bank (it was classified as a core bank in 1989 and 1999), it was a border bank just at the edge of the core group. The more detailed findings of the micro study, confirming the predominance of isomorphism, forms therefore a further confirmation of the findings of the macro study in that particular respect.

The higher variation observed in all other relational groups (in the macro study) coupled with the absence of a clear difference between those groups is however not entirely compatible with the three factors we cited earlier. It appears that ease of resource generation, resource homogeneity, and task simplicity did not necessarily give rise to a more general or sector-wide isomorphism. Notwithstanding this, the absence of a similarly distinct template associated with other relational groups, i.e. foreign banks, peripheral private banks, and peripheral and core state banks, also precludes the presence of specific resource niches and resource partitioning, and any other specific pattern of differentiation. This is in line with general resource homogeneity and task simplicity. Given this, we can conjecture that, because the resource generation conditions were not as favourable for peripheral banks as they were for core banks, the former would have more variable results and success in terms of resource generation, and therefore, also more varying template features. And in the case of core state banks, the variable outcomes would be a normal result of general task division within the state financial system.

11.3.4 Initial Period of Liberalisation Macro Study Findings

First, the first-movers into new markets and banking territories were peripheral banks, whereas core banks exhibited higher inertia. These entered the international funds markets, the capital markets, the inter-bank money markets and the foreign exchange deposits market more rapidly and made on average heavier use of them as a source of funds and an outlet for placements. In terms of the extent of reliance on international borrowings, private banks in the periphery were the leaders and there was no significant difference between old and new banks within that group. It is noteworthy that private local banks were ahead of foreign banks in that respect, and that even new banks were able to generate significant funds from abroad. In terms of the extent of reliance on investments in securities and on inter-bank borrowing and lending, new banks in the periphery, both private and foreign, were the flag carriers. It is also noteworthy that older banks were relatively less involved with these markets even in the periphery. In contrast, all peripheral banks, both old and new and private and foreign, became more heavily involved in foreign exchange deposits in comparison with core banks, and old foreign banks were even more distinct in that respect.

Second, although the first-movers into new territories were mainly from the periphery, and on average, these group of banks were more involved with these new business practices, it has to be underlined that variation/diversity among these banks was also significant. In other words, there existed clear trends and a stronger association of these trends with the peripheral groups; however, variation was too significant to speak of homogeneous groups and processes.

Third, as a corollary to the entries into new markets and banking territories, reliance on deposit collection and credit provision, i.e. on more traditional commercial banking practice, appeared to have subsided in all banks, but again, more so in the periphery, and especially in new banks. In stark contrast, old banks, and especially the core, continued to be more heavily involved with traditional commercial banking practices and less with the new. It is also noteworthy that core private banks were particularly isomorphic in that respect, very much as they were previously.

Finally, we can state that there is stability in both isomorphism and diversity in that they have a stable link with the same actor constellations over time, i.e. stability in higher isomorphism in the core and stability in higher variation in the periphery.

11.3.5 Initial Period of Liberalisation Micro Study Findings

Overriding theme during and at the end of the initial period of transformation was variation (market partitioning and segmentation) at the industry level (i.e. retail and wholesale banking)[143] and differentiation at the organisation level (i.e. between YKB and

[143] Please note that micro study findings also included the perceptions of interviewees with respect to various aspects of the external context. This observation is, in the first place, based on their perceptions, but it is also supported by macro study results.

GB). The main reasons for that were the emergence of a variety of new resource spaces, complex task environment, and company specific resources and competencies (enabling entrepreneurial acts and innovation). The underlying cause of the first two of these features was the changes in economic and financial regulations. The underlying cause of the third feature was company specific institutions (management characteristics and company culture). The first two features led to the emergence of openings or opportunities for differentiation, while the third feature enabled the utilisation of such opportunities, leading also to superior market performance.

Though being of minor importance, isomorphism also existed in certain respects, both within and across different segments. The main reasons for that were the existence of easy-to-tap resource spaces among the emergent resource spaces (e.g. the capital markets), relative task simplicity in those spaces, and mimetic and normative influences. The underlying cause of the first two features was again the changes in economic and financial regulations. We also concluded that variation and differentiation were more closely associated with the application of more complex tasks and with the generation and utilisation of more complex resources. Respectively, isomorphism was found more closely associated with the application of less complex tasks and access to less complex resource spaces.

We also observed that, somewhat paradoxically, peripheral changes primarily took place in the periphery of the industry, whereas frame-breaking or core changes took place primarily in its core. Our reasoning was that core changes were more closely related with the ability to tap into more difficult-to-tap resources and markets, and with more complex tasks than peripheral changes, and therefore also more difficult to realise. However, the company specific resources and competencies that are essential for differentiation (see above), and therefore also, for core changes that differentiation naturally requires, were present at the industry's core. By the same token, core changes were primarily associated with organisational differentiation and market partitioning, whereas peripheral changes were primarily associated with isomorphism. The few organisations, which would manage to bring about such changes, would naturally be able to differentiate themselves from the crowd. Respectively, as peripheral changes are more closely related with the tapping of easier-to-tap resources and markets and with less complex tasks, these would be more easily realised, more open to mimetic influences and therefore more common and associated with greater isomorphism.

However, by core changes, we did not necessarily mean path-independent or radical changes. We claimed that, core changes could very well be path-dependent changes, such as YKB's entry into consumer banking, where the bank could best utilise its huge retail network and established customer base, its customer relations and service competencies, and a strong name and image. Indeed, we argued that core changes were likely to be path-dependent changes, because they required the mobilisation and utilisation of core competencies, which are likely to be developed over a long period of time. For the same reasons, peripheral changes would more likely be more path-independent.

11.3.6 Initial Period of Liberalisation Combined

The basis for above claimed relationship between core changes and core industry position was YKB's industry leadership into consumer banking. This represented a very important change, both for the bank itself and for the industry as a whole, which required the generation and utilisation of more scarce and expensive resources, including large-scale investments and changes in technology infrastructure, automation, and communication. This important change for the bank itself and for the industry had not been visible in the first stage macro study, resulting in a too strong and general association of change with peripheral firms and relative inertia with core firms.

At this point, it might be useful to discuss a few issues and provide a few clarifications. Firstly, one could also argue that, the changes, which were detected in the macro study and which were on the whole more closely associated with peripheral firms, are not all such peripheral changes. Entry into new financial territories such as the capital markets, foreign exchange markets, international money and capital markets and trade would also all require major new capabilities and therefore should also be considered as core organisational changes. However, although all these new business domains require the presence of new types of capabilities, especially in terms of complex know-how, the appropriation and utilisation of such complex know-how is not necessarily very complex or difficult itself. Why would then core banks such as YKB be relatively less involved in such relatively easier changes? The answer to this question is likely that, by sticking to the core business template of retail banking on the whole and realising core, yet path-dependent, changes, it was possible to sustain most accumulated resource and power advantages. Why was then such a proliferated group of peripheral banks engaged in such extensive changes? Likely because the capabilities, which were required for realising such changes, were not difficult to appropriate with the relatively small resource base of peripheral banks. In that sense, such changes were also path-dependent from the point of view of peripheral banks. As such, and somewhat paradoxically, these banks were actually benefiting, perhaps more than core banks, from opportunities generated by stable parameters of the state-dependent national-business-system. These were, the large state financing opportunities arising from wide and heavy state presence in the economy, and secondly, the state-induced concentration of large businesses and their proliferating financial needs. These represent opportunities as important as those presented by the opening of national borders to multinational corporations.

Secondly, another important finding of the micro study was that variation and differentiation were more closely associated with the application of more complex tasks and with the generation and utilisation of more complex resources. Respectively, isomorphism was found more closely associated with the application of less complex tasks and access to less complex resource spaces. Again, this conclusion was also based on YKB's differentiating approach through consumer banking. This was the domain of fundamental difference between the two banks at that time, whereas in all other respects, their business templates were highly similar. Such similarities not only applied to more stable, traditional commercial banking activities, but they were also associated with isomorphic changes in the new banking domains. That is, they were both involved in these new domains to a relatively small and similar extent. In that latter respect, the micro study findings were entirely consistent with and supportive of the macro study findings. That is, core banks were more inert and more isomorphic than peripheral banks.

This takes us to another issue needing clarification, which is the dubious position and role of GB in each study. This was a bank, which had been just little outside of the core group before the 1980s. In the macro study, it was classified as a core bank in the following two periods, however with such a two-way classification it was not possible to precisely reflect its position or status. An important nuance was that, in the 1980s, it actually was closer to the border of the core with the periphery, while in the 1990s, it had moved into a much more central position. Thus, it still was possible in that period to treat GB as still a less central and less powerful actor than YKB. The above conclusions can only make sense, if these additional considerations are taken into account. Thus, as a core bank GB was as inert as YKB with respect to more widespread changes taking place at that time, but it was not yet as powerful as the other so as to realise such core changes.

Another puzzling outcome needing clarification concerns the association of higher isomorphism with the peripheral changes. This statement was based on the micro study findings, and in the first instance, it may not seem to apply to macro study findings. However, as was just mentioned above, the macro study had also indicated that (private) core banks were indeed very isomorphic in terms of peripheral changes. How can we then reconcile that statement with the higher diversity observed among peripheral banks, in terms of these same aspects of banking? Although the changes that gave rise to high diversity, or more precisely to the maintenance of high diversity, in that group can be considered peripheral changes, both from the perspective of core banks and their business templates, and from the perspective of the entire banking system, these same changes cannot necessarily be considered as peripheral changes from the perspective of each individual peripheral bank. We should remember that we already argued that diversity in the periphery was mainly a result of greater choice alternatives, both qualitatively and quantitatively, offsetting the counter effects of isomorphic influences. That means, even though peripheral banks were actually more susceptible and open to change and isomorphic influences, this did not result in greater isomorphism, because of an increase in resource spaces and choice alternatives.

A final comment on this period concerns the role of relational groupings other than core and periphery (in the macro study)[144]. We already established that the main effect of the core and periphery distinction looked to be more significant than the main effect of new and old, and ownership group distinctions. In addition, the interactive effect of core-private had proved even more significant. Although being of lesser importance than these, the interactive effect of periphery-new was still significant, concerning two specific variables. These were the extent of reliance on investments in securities (capital markets) and the extent of reliance on inter-bank borrowing and lending. In terms of these two specific activities, there was a significant difference between new and old banks, higher levels being associated with new banks. There was further no significant difference between local and foreign banks, within neither the group of new nor the group of old. Although there was little isomorphism within each of these groups and variation was significant, the association of greater involvement with the capital and inter-bank markets with new banks still deserves some attention. As being a further indicator of the importance of resource dependence relations, it supports the conjecture that operating in these two specific markets involved fewer and less complex resources than in others, posing little obstacle to young new banks. Because capital markets were in that period dominated by heavy government borrowings, i.e., fixed income securities such as treasury bills and bonds, it should not be confusing to associate these markets with relatively favourable resource dependence relations for new actors. In terms of other variables measuring the involvement in new markets, such as the extent of reliance on international borrowings and involvement in foreign exchange markets, there was no significant difference between old and new banks. This was the case even after taking the interactive effect of old and new with periphery into account. The only minor exception was the

[144] This was not part of the micro study, as we were dealing with two old, private banks.

higher association between foreign exchange deposits and old-foreign banks, which also hints at the role of resource dependence and knowledge advantages.

11.3.7 Extended Period of Liberalisation Macro Findings

In this period, we observed a significant increase in funds generation from international sources. This became a more common practice in the sector than in the previous decade, but more in the periphery. Core banks were still relatively more inert. They also remained little involved in inter-bank borrowing and lending in comparison to peripheral banks. In both cases, core banks exhibited significant isomorphism and despite undergoing similar changes, peripheral banks exhibited much more variation.

On the other hand, more general and widespread moves, including also core private banks, were observed towards heavier emphasis on funds placements in securities and capital market business, at the expense of credit provision. Notwithstanding such a move, core banks still remained more involved with credit provision. They were also still more isomorphic in that respect as well as in terms of investments in securities. At the same time, new and foreign banks in the periphery exhibited significant diversity in terms of securities business. The composition of revenues also indicated that peripheral banks were still distinct in terms of generating a greater portion of revenues through foreign exchange and capital market transactions, expressing further the maintenance of differences between core and periphery. A general and widespread move also applied to higher emphasis on deposit collection, interestingly more pronounced in new banks, and in particular, on foreign exchange deposits. Despite such a widespread change, old banks in general, and core in particular, remained more isomorphic. Only state-owned banks continued to have a strong reliance on savings deposits in local currency, indicating an important difference in terms of resource and stakeholder dependencies between these and private firms.

In short, more significant increases in involvement with most of the new business domains were still more closely associated with the periphery. Although following the periphery and exhibiting in general higher change in comparison with the previous period, core banks were still relatively more inert than the former. Furthermore, in general, core banks still exhibited significant isomorphism, whereas variation/diversity was still much more closely associated with the periphery. In certain respects, higher variation was also observed among new banks in comparison with old banks.

Finally, we can again state that, stability prevailed in both isomorphism and diversity also in the longer term, in that they remained associated with the same actor constellations. That is, higher isomorphism was still, like at the end of the pre-transformation period, associated with the core and higher variation with the periphery.

11.3.8 Extended Period of Liberalisation Micro Findings

In this period, we observed that the two banks went through various organisational changes that had some commonality, although their specific strategies were not identical. The undertaking of similar organisational restructuring measures such as centralisation of operations, introduction of customer based information and process management, customer /business line /market segment based organisation structuring, channel differentiation for corporate/wholesale business, all hinted at a certain amount of influence of common industry recipes and some mimetism (i.e. of external institutional influences). Nevertheless, even within these evidently isomorphic processes various more specific differences were present in the execution, extent, and degree/intensity of changes, preventing complete isomorphism (leading to the maintenance of variation). Furthermore, greater strategic choice opportunities were also being utilised to a significant extent, as we also observed various attempts for purposeful strategic and organisational differentiation, notably on the part of GB. In other words, both purposeful differentiation and differences in the specifics of essentially isomorphic changes were behind persistent variation.

At the same time, heavy involvement with wide ranging organisational changes in neither case implied a break from past strategies. This was the case regardless of the substance, extent, and scope of changes and regardless of their isomorphic or difference creating nature. In other words, there were strong continuities in and path-dependency on prior strategies, strategic successes, and with the resources and competitive advantages these had created. Such was the case not only at YKB, where change was more partial (less extensive), less radical, and mainly involved exploitation (peripheral changes), but also at GB, where change was more holistic (more extensive), more radical, and involved exploration (core changes).

We will revisit the more specific aspects of these findings and their explanation in section 11.5 (this chapter), where we present our specific propositions on isomorphism-variation and stability-change.

11.3.9 Extended Period of Liberalisation Combined

There exist a few important findings concerning this latter period of transformation, where the macro and micro studies diverged from each other. Such were not necessarily incompatible or irreconcilable findings, but supplementary contributions.

Firstly, through the macro study, we had concluded that core was still more isomorphic than periphery. However, as a closer look at the details of operational modes in the micro study revealed, differentiation and variation were evident even within the core.

Secondly, the macro study had established the core was still relatively more inert, despite following the periphery in terms of greater involvement with the new business domains. The micro study has gone one step further and shown that the innermost nucleus of the core was even more inert than its outer edge. And this did not apply to only more peripheral or loosely-coupled activities for a commercial bank, such as involvement with capital markets, as revealed through a more firm-specific analysis of the same quantitative data used in the macro study. In addition, the qualitative analysis has established that, the same also applied to the specific modes of operation pertaining to more tightly coupled, core commercial banking domains.

In relation with these two major findings, we were able to reach through the micro study two important general conclusions. Isomorphism was only partial even within the core, and this was the case because, as well as, in spite of path-dependent nature of changes.

Finally, each of these studies has also separately shown a different aspect of the long-term persistence of an important national-business-system feature, namely that of the credit-based financial system. Macro study results had indicated the persistence in the core of greater involvement with credit provision, despite a widespread move in the sector away from credit provision towards other more attractive and lucrative funds placement outlets. The persistence of a practice, which forms a typical attribute of a major socio-economic system component, among the core constituents of that system, is by itself an important finding speaking for long-term systemic stability. The additional contribution of the micro study was in the sense of showing that, even a bank which apparently (according to concrete financial data) was relatively less involved with credit provision than some of its peers, was actually in a process of adjusting all its organisation to the long-term strategy of commercial retail banking and credit provision to larger segments of the market.

This means that core banks continued, and did everything they could to be able to continue, to benefit from an important stable institutionalised financing practice, i.e. credit-dominated financing schemes, which was a result of two major factors. One of these was cultural (cognitive-normative) and mainly associated with the habits and routines that had been developed and reinforced over the years through the presence of low- or zero-cost credit financing. The other major factor was structural (political) and mainly associated with the reluctance of the business community to switch to alternative forms of financing or their outright rejection of these, because such would imply an erosion of ownership concentration, and therefore, also bear the risk of eroding the preferred concentration of power and authority in corporate governance. However, without the important stake and interest of core commercial banks in its maintenance, and without their active involvement in and contribution to its reproduction, the persistence of such an institutionalised scheme could not have been guaranteed. Yet, through their very efforts at the same time to broaden the credit financing opportunities to larger groups of smaller enterprises, they may also to some extent be able to erode the dominant role of large business within the national-business-system.

11.4 Discussion of the Preliminary Puzzles in View of the Macro and Micro Study Results

11.4.1 Parts-Whole Relations and Actor-System Dialectics

In our opening, we had put that the most central debates in organisation theory involve arguments on selection-adaptation and determinism-voluntarism and they are related with the dialectics of actor-system and action-structure relationships in social theory. Through the framework and analytical model presented earlier, we emphasised that the prevailing theoretical resolutions of such controversy could be supplemented with empirical studies dealing with multilevel analysis. We also stated that such empirical analysis should entail three main features. These were: (1) longitudinal analysis of phenomena at multiple levels, (2) investigation of how lower-level phenomena translate into and manifest at higher levels, i.e. as shared/homogeneous versus configural properties, (3) examination of the effects of higher-level phenomena on lower level phenomena.

In both the macro and micro studies, we have shown the limited and varying extent of shared (homogeneous / isomorphic) properties in an inter-organisational field and accounted for the actor-, time-, and issue-specific variation in and configurations of business practice. By this, we hope to have been able to point at the socially constructed nature of many higher-level, system properties and "the coexistence of environmental determinism and strategic choice" (Hrebiniak and Joice, 1985).

In addition, through the more processual longitudinal micro study, we were able to examine more precisely the top-down effects of higher-level system properties on organisation level phenomena. As higher-level properties constitute only the contextual properties of lower-level units/phenomena, a simple cross-sectional association was considered insufficient for establishing any causal effect. Through longitudinal, diachronic analysis, we hope to have been able to show in which ways and to what extent contextual properties really affected the different units contained therein and that such effects on the whole pointed to a continuous interplay of external and internal constraints to as well as opportunities for strategic choice.

With this we not only confirmed the co-existence of environmental determinism and strategic choice that we had established with the macro study, but were also to some extent able to describe the structuration processes unfolding at both the organisation and industry level.

11.4.2 Organisational Inertia/Stability and Elasticity/Change

We claimed that the seeming paradox of inertia and elasticity prevailing at the same time formed a little understood and investigated aspect of organisational phenomena. The relationship between the two concepts was considered more complex, entailing more nuances than a simplistic dichotomy could capture. We suggested that the effects of organisational change and inertia on organisation effectiveness could be both positive and negative, depending on how closely matched they are with good management of resource dependencies. In order to address these considerations, we examined which resource dependencies at sector and societal level were relatively stable and which ones were changing and found that matching changes and continuities at the organisation level were closely associated with organisational effectiveness.

Furthermore, we have used a relatively long time perspective in order to address such questions, and studied a quite volatile socio-economic context. Immediate and long-term effects of major disruptions in an industry or in major socio-economic institutions on organisations could be quite different. We found that, in both circumstances, innovativeness and elasticity were positively associated with organisational effectiveness, as long as these combined with stability in core business domains and sticking to core competencies.

11.4.3 Unfolding Structuration through the Dynamics of Constraints and Opportunities Presented by the External and Internal Organisational Context

We hope that, with the micro study, we were also able to reveal the path-dependent nature of organisational change by establishing links between past actions and future choices. And we hope to have done this in a way so as clarify the role of inner and outer structuration processes in shaping the specific organisational paths of development.

We mentioned earlier that the *outer structuration* process reveals the dialectical interdependence between and mutual influence of the external context / system and organisational action. It thus simultaneously deals with *social embeddedness and action horizons* of organisations or social and economic actors. It describes how external developments lead to (enable, constrain, or cause) certain organisational actions and adjustments and the external implications and effects of these actions and adjustments. At the same time, the *inner structuration* reveals the dialectical interdependence and mutual influence of the internal context or system and organisational action. It thus simultaneously deals with *historic embeddedness and action horizons* of organisations. It describes how internal developments lead to (enable, facilitate, or hinder) further internal adjustments via the bridge of organisational actions (i.e. enabling, facilitating, or hindering certain actions).

By establishing how past actions of individual organisations affected both their internal and the external context, we hope to have shown also their effect on future choices and actions that become subject to constraints posed by these two contexts. We also hope to have combined a more positivistic/objectivistic analysis with a more subjectivist/interpretative account of the role of the external context, by bringing together more concrete data with individual actors' own representation and interpretations of that context.

11.4.4 The Relationship between Resource Dependencies and Stakeholder Demands and Social Legitimacy

Because norms, regulations, and business models can change the very terms of success and effectiveness by changing the nature of demands of important stakeholders and vice versa, it was also necessary to examine the mutual influence in this domain. We therefore also tried to examine the consequences of discrepancies among, as well as mutually supporting aspects of, norms, regulations, models, and resource dependencies as well as between different resource dependencies for organisational choices. In situations where discrepancies existed between demands of different stakeholders, we observed an inclination to give priority to those demands, which were fairly consistent with the prevalent norms and business models, especially when competition was strong. However, this happened by ensuring the fulfilment of the demands of the most powerful or important stakeholders. In other words, institutional, political, and economic rationality were all playing their part in steering organisational choice and action. Our observations did not indicate a one-dimensional rationality, for that matter, a one-sided legitimacy concern. Apparently, no purely social legitimacy oriented action was noticed within the boundaries of this study, or a de-coupling of these from core operations that would be more closely linked with resource dependencies.

11.4.5 Relationship between Field Dynamics and Structure and Organisation Level Outcomes

A further major issue was the relationship between industry structure, social interdependencies, and organisation level outcomes.

In that regard, we have, first of all established that, new entries, although changing the field dynamics in terms of competition to some extent, were not in a position to destroy, or significantly reshape, the industry structure. This mainly was due to emergent new resource spaces and prevailing differences in resource dependencies. We also have ascertained that innovation and change at industry level were not primarily or predominantly associated with new firms, but with all actors within the periphery including new actors and old, and even with the core. New entries, being a proliferating representative of a new business template and model, were an important factor contributing to the legitimacy of the latter. However, this in no way was an impediment to persistent and significant amount of variation/diversity within the group of firms, which in rough terms were applying this same template. Furthermore, it was actually a dominant and core player, which introduced a major new business model to the field, raising industry norms to a new level and shaping the terms of success and effectiveness at the centre of the industry.

Secondly, by being in a position to respond to, balance, and manage a much diverse set of resource spaces and the demands of a very diverse group of stakeholders, core banks were actually also able to preserve their secure position. In contrast, while being able to derive significant benefits from state financing and the diverse financial needs of a small group of large corporations, peripheral banks were bound to remain extremely dependent on these few powerful resource providers. These were, on the whole, not able to shift to a position, where resources are more diverse, and dependency relations imply less vulnerability.

11.4.6 The Role of Power Differentials and Industry Stratification in an Institutional Framework

Regarding dialectics of reciprocal actor-system relations as opposed to passive conformity to institutional prescriptions, we hope to have shown that the possession of higher economic and institutional power did not necessarily imply more latitude for choice. This was because being in the core also meant a set of historically developed deep-seated interdependencies with the social system, limiting choices. Notwithstanding this, core actors possessed a large capacity to determine and alter the main parameters of an industry system and the institutional field as well as to resist or absorb any influence from both their immediate and more general environment. In a way, the core was indeed where the inter-penetration of different social / societal spheres were most visible, accentuated, and durable. In other words, this was the central locus of inter-penetrated system dimensions where actor-system dialectics, the role of agency, and the structuration processes were clear and pronounced. The periphery sought indeed to detach itself from central societal interdependencies and in some respects managed doing so. However, such loose-coupling was partial, giving rise to other important and unidirectional dependencies on major actors, putting the periphery in a less stable and more vulnerable position.

In such a framework of action, our major finding regarding the issue of institutional isomorphism versus interdependencies between system dimensions and the associated systemic coherence was the following. Although normative and mimetic influence and processes were in effect in terms of pulling economic actors towards cognitively legitimate business templates, the consequences of that in terms of inter-organisational isomorphism and convergence were partial, scattered, limited. And, such were the case, not only across distant social locations, but also over much shorter distances. Depending on the dynamics of resource dependencies and the associated variation in systemic interdependencies, variety in organisational templates could persist, and new varieties could emerge. This was the case, not only where coupling was looser with the major social system dimensions, bot also where it was more pronounced and durable.

Going back to the central issue of inertia and change, we should reiterate that the core showed stronger inertia in some respects, but important changes in others. However, inertia, where and when it was observed, was not only due to the interdependencies deterring the core to apply and conform to a given new template. It was also a result of more active resistance to applying a given template, which was at the same time closely associated with the ability to engender important changes in other respects. On the other hand, the periphery appeared to be more open and susceptible to change, and more willing to apply a new business recipe. However, due to differential capabilities for doing so, the intended isomorphic changes at the organisation level actually gave rise to significant variation and diversity at the group level.

Finally, and from all this, two important conclusions follow, regarding the perseverance or institutionalisation of a given industry structure and stratification. First of all, the distinction between core and periphery remained significant despite important changes in both groups. This was due to new differences destroying previous similarities, despite new similarities taking the place of older differences. Secondly, despite important changes in both groups, the path-dependent nature of those changes gave rise to important stabilities in resource generation capabilities and resource advantages, and thus to also considerable stability in organisational power differences and industry structure.

11.5 Additional Contributions to Theory Development: How Do Firms Combine Isomorphic Tendencies with Differentiation, Niche Seeking, and Resource Partitioning

After having discussed all the different implications of the findings of this study for the various questions raised a priori to the investigation, we also need to highlight some of the important findings, which could be tested further in studies of other settings and industries. Based on our conclusions in Chapter 10 (Section 10.7), we can formulate the following propositions for more general theory development with regard to the question of "how firms can combine isomorphic tendencies with differentiation, niche seeking, and resource partitioning tendencies". These should be viewed as general propositions which could be specified further through a series of variables depending on the focus of a specific study. Furthermore, it should be noted that they are not meant to express causal relations, but only some functional relationships which may be worth exploring further.

The major implication of these propositions is that different principles may apply to different sub-fields (of organisation theory) such as target markets and products versus technology, primary processes, and organisational structure or more general business templates versus specific competitive strategies. Whereas principles or rules of isomorphism may be found to apply in one field, principles or rules of differentiation, niche seeking and resource partitioning may be effective in another.

11.5.1 General Isomorphic Processes and Crude Isomorphism

We can formulate two major hypotheses regarding general isomorphic processes (crude isomorphism) and the conditions under which these are likely to occur. Respectively, these refer to (a) isomorphism in markets and products and (b) isomorphism in technology, primary organisational processes, and organisation structure.

1-a Markets and products

General isomorphic changes (and crude isomorphism) in terms of (target) markets and products are likely to be associated with the utilisation of new resource spaces and mimetism, especially when competitive pressure is high.

1-b Technology, primary organisational processes, and organisation structure

General isomorphic changes (and crude isomorphism) in terms of technology in use, primary organisational processes, and organisation structure are likely to be associated with industry recipes, international modelling and mimetism, especially when combined with scarce resources, intense competition, and international resource dependencies.

11.5.2 Variation and Differentiation

Even though the external context, in terms of both institutional and resource dependence aspects, can have important isomorphic effects and push firms in a convergent direction in a more general way, firm-level resource and institutional differences can intervene, producing intentional as well as unintentional variation. Firstly, these may limit the scope and intensity of essentially isomorphic processes, causing differences in the specifics of applications that appear similar at a more general level (in a broad and crude sense). Secondly, firm-level resource and institutional differences may also lead to differences in terms of experienced need and desire for differentiation and active search for specific external pockets, which may enable purposeful differentiation in terms of specific competitive strategies and means of competitive advantage creation.

In other words, despite clear and strong isomorphic processes taking place in a general and rough format, various specific differences can be present in implementation, due to differences in the scope, intensity, and finer details and specifics of undertaken changes, preventing complete isomorphism and leading to the maintenance of variation. At the same time, firms can also combine isomorphic implementations in one organisational domain with purposeful differentiation in another domain and/or at another time. These possibilities will be addressed in the next group of hypotheses.

Respectively, these refer to (a) purposeful differentiation of (target) markets, marketing and sales strategies (i.e. specific strategies and means of competitive advantage creation), (b) variation in technology, primary organisational processes, and organisation structure.

2-a Purposeful differentiation

2-a1 *Purposeful differentiation is most likely to take place in terms of specific target markets, marketing and sales strategies, i.e. the more specific strategies and means of competitive advantage creation.*

2-a2 *Smaller market power and a large need for performance improvement are two major factors increasing the need, desire and attempts for, and therefore the likelihood of, intentional and purposeful differentiation (and so the variation in specific strategies and means of competitive advantage creation).*

2-a3 *Additional factors affecting the likelihood of (need, desire, and attempts for) intentional and purposeful differentiation would include management philosophy and company culture, international aspirations and dependencies, and openness to international models and influences.*

2-a4 *The higher the isomorphism in one organisational domain, the higher the likelihood would be of (needs, desire, and attempts for) intentional and purposeful differentiation in another domain or subsequently in the same domain.*

2-b Variation in scope, intensity, and specifics of crudely isomorphic applications

Differences and variation in the scope, intensity, and specifics of crudely isomorphic implementations in technology, primary processes, and organisation structure can arise from a combination of factors including,

2-b1 *Differences in specific target markets, marketing and sales strategies (i.e. more specific strategies and means of competitive advantage creation,*

2-b2 *Differences in contextual features such as organisation size and human resource qualities and development (which are inter-dependent with specific strategies and means of competitive advantage creation), and*

2-b3 *Differences in openness to international models and influences, which would in turn depend on international aspirations and dependencies as well as management philosophy and company culture.*

11.5.3 Relationship between Types and Domains of Change and Types and Domains of Isomorphism and Variation:

3-a *In general, the scope and intensity, or the radical nature, of organisational changes would depend on the same factors as those in 2a (in the case of purposeful differentiation) and 2-b3 (in the case of isomorphic change).*

3-b *As purposeful differentiation and exploration are closely inter-linked, the same factors increasing the likelihood of intentional and purposeful differentiation (see 2-a) would also lead to exploration, and increase the likelihood of fundamental and core changes.*

3-c *In general, isomorphic change is more likely to involve or be associated with peripheral or efficiency oriented changes involving exploitation*.
(However, this would not necessarily mean complete isomorphism due to the reasons mentioned 2-b1, 2-b2, and 2-b3.)

In general, and by definition, partial and less intensive, thus less radical, changes imply stronger path-dependence with prior strategies, strategic successes, and the resources and competitive advantages these have created than holistic and more intensive, thus more radical changes. Similarly, and independent from the scope and intensity of changes, exploitation oriented peripheral changes also imply in general stronger path-dependence than exploration oriented changes. However, this does not necessarily preclude *path-dependence in radical and/or explorational change*, in the sense of sticking to the same generic strategy and business template, while applying different and new competitive strategies and using new means of competitive advantage creation.

Thus:

3-d *Even radical and explorative change is likely to involve path-dependencies in terms of continuities in the more generic or general business template*.

11.6 Discussion of Research Methodology

As any research, but particularly as any historic research, this study also entailed certain technical limitations concerning availability, accessibility, and collection of data. While data restrictions were mainly in terms of *available types* regarding the more "objective" aspects of the study, the restrictions took the form of *accessible sources* regarding its more "subjective" or interpretative aspects.

Despite such inevitable technical difficulties involved in historical research, we can claim that our eclectic research methodology, and especially the holistic case studies, had important implications for and contributions to research and theory development in organisation science, which we would also like to discuss.

11.6.1 Technical Limitations

By attempting macro and micro level research simultaneously in the first place, and by combining quantitative and qualitative investigations in the latter, we have tried to incorporate both an objectivist-positivistic or rationalist approach and a more subjectivist-constructionist or phenomenological approach. The research as a whole entailed eventually more the features that would be associated with the former, although it was a very process oriented research and entailed substantial interpretive analysis. Several interrelated reasons exist for that.

The main problem or limitation in that regard was finding and interviewing a more comprehensive number of major actors (individuals), who were involved in the (inter)-organisational processes described in this study. Interviewing, for example, the two general managers, who respectively ran the two case organisations during a substantial part of the period under study, could have provided us with additional valuable insights. Unfortunately, both bank presidents had retired from their position (not too long) before our study. After all, in both firms, and especially and to the utmost extent at GB, where the long-time president received so much credit for showing great leadership, the company presidents possessed much autonomy and managerial power and influence. As such, their personal account, interpretation, and reconstruction of the internal and external developments and their own way of interrelating these two would have certainly been a very important and crucial contribution to the study.

Instead, our interviews were limited to a small number of other actors, each telling us about partial aspects of the whole. In an industry with a fast management circulation, it was a big challenge to locate a large number of managers, who had stayed with the same organisation for the entire or a substantial part of the period under study. Of course, these interviews provided us with subjective accounts and interpretations, each from an own individual perspective. In general, these accounts entailed a great amount of common interpretations on the same or similar subjects/topics. (There was actually a great amount of agreement between remarks of interviewees even from two different banks concerning several important aspects of the external business context.) However, not all topics could be handled to the same extent or with the same details with each interviewee. This formed a problem to some extent, because we could not find a sufficiently large group of people to represent each of a diverse set of organisational roles. Furthermore, it was not possible to interview exactly the same kind of people, that is people with a similar (history of) work or position, in each bank. For all these reasons, we cannot claim to have been able to produce the most comprehensive synthesis of subjective points of view and a sufficiently developed re-interpretation of other more ‘objective’ data. It might be that this applies more to the subjective construction of the external context, and foremost due to not being able to include the sense-making processes of the business leaders and the enactment of the environment from their perspective.

11.6.2 Contributions of Methodological Eclecticism to Research and Theory Development

It should be noted that this study deliberately aimed to understand “reality” by combining two kinds of data and analysis, i.e. quantitative data and deeper interpretative analysis. It has deliberately refrained from preferring one kind of methodological approach, and the reality which is possible to uncover through it, over a drastically different kind of methodology and the reality that it can uncover. This may have restricted the degree of sophistication especially in quantitative methods of analysis, which could be useful for a sharper distinction of effects, but this would come at the cost of detailed description and a thorough interpretation and understanding. Furthermore, specific links and comparisons with the in-depth analysis of embedded cases in the second-stage micro study would have also become impossible.

We have focussed on a range of substantive issues, which surface in various theoretical approaches in organisation science. This was not for developing a master theory or deep theoretical integration, but for (partial) reconciliation of theories. We tried to develop tentative overlaps and linkages by attending to traditional and comparative strengths of different theoretical approaches pretending that increasingly more sophisticated and differentiated versions of these did not exist. This involved gauging, how different approaches can be intertwined in a broad substantive and methodological territory. Such linkages may be useful for and guide a more general and deeper conceptual integration, if another scholar attempts such a life-long task.

Although it may be possible to use one or a more restricted range of theories to address some of the issues in this study, such a more confined theoretical terrain would have greatly restrained merging radically different kinds of data. Our aim however went further than doing justice to one kind of data set or improving the applicability of one specific theoretical approach.

We hope to have proven that by combining different research methods, and especially through qualitative research (holistic case studies in particular), we can:

(1) Understand the limitations of specific theories and theoretical models, prevent to over-generalise these conceptions, and combine and complement them in order to capture complex interactions and so do justice to full empirical reality.

(2) We can build new theoretical conceptions and models, which account for complex and paradoxical relationships and interactions.

Paradoxical findings in terms of different theoretical conceptions have been especially useful for demonstrating the limitations applying to different theoretical models in isolation. These also contributed to building new conceptions and theory. A major implication of this study can be stated as, what manifests itself as convergence on (and divergence from) an institutional template depends on what one is specifically looking at. In other words, it is possible to have completely different findings next to one another and observe different principles applying to different aspects of organisations and sub-fields of organisation science. We pointed out and juxtaposed several interesting contradictory findings between the quantitative macro level study and the more hybrid or eclectic micro-level study as well as between more specific domains of the micro-level study.

These implicated that analysing isomorphism-variation (and stability-change) in specific domains of organisation and sub-fields of organisation theory such as market, product and competitive strategies, primary processes (production and service delivery processes) and technology, organisation structure and human resource management, in isolation from one another, bears the risk of theoretical over-generalisation. This study has shown that by studying these domains in conjunction with one another (holistically), and by comparing findings in one domain with those in another, we can realise the possibilities for co-existence and validity of contradictory or opposite conceptions applying to different domains. This is an important implication in terms of limited generalisability of each specific theory and the benefit of using them complementarily. Furthermore, it also became clear that analysing isomorphism-variation statically, i.e. comparing two or more firms at a single point in time, may also lead to unwarranted generalisations in one direction or the other. In other words, thorough longitudinal analysis we can realise the possibility of contradictory conceptions to apply, be valid and even causally related (in time), as have been indicated by longer-term oscillations. As the holistic nature of the case studies was especially useful for shedding light on such intricate and paradoxical relationships and contingencies, we have to stress that qualitative analysis should not be seen as merely an explorative instrument for operationalisation and standardisation of variables.

In short, we hope to have shown that our capacity to generalise is rather limited and that we can prevent over-generalisation and one-sidedness through comprehensiveness and methodological and theoretical eclecticism.

11.7 Implications for Co-evolutionary Research Approaches

We have to note that our primary objective was not so much explaining co-evolutionary processes per se, i.e. how different evolving entities influence each other's evolution, as explaining inertia-change and isomorphism-variation and the relationship between the two. In that endeavour, we have drawn on four major theories which had a direct bearing on these issues, as they would have on co-evolution. The research incorporated, however, co-evolutionary processes in the explanation of mutually dependent phenomena such as isomorphism-variation and inertia-change, which have not (sufficiently) been addressed in co-evolutionary approaches.

What we hopefully also have shown is that one needs to develop and utilise a number of notions reflecting the different means and approches of different firms in their interaction with their external context. To that end, one has to utilise a number of different theoretical concepts. In that respect, we would like to suggest that co-evolutionary research should consider in greater detail the mutually dependent role of resources, power, and competitive dynamics and institutional processes at different levels of analysis, including the firm, the industry (and its niches) and the business system. This would be essential for attending to and explaining the specific role of path-dependencies in the (co-) evolution of firms, industry systems, and the more general national business system features. Furthermore, co-evolution research and literature could benefit from more targeted analysis and scrutinisation of synchronic and diachronic inter-dependencies among forces contributing to change and inertia, to isomorphism and differentiation, as well as the relationship between the two. This would also imply a greater role for dialectics in (co-) evolutionary analysis and thinking and the interplay of such forces could be an essential aspect of co-evolutionary research.

We could, however, not address and investigate all aspects of macro co-evolution (outer structuration). While we were able to examine a number of different external influences on individual firms, we were not able to address and investigate the effects of individual firm behaviour on all of these external-context elements. This, above all, includes the role which different types of actors may have played in promoting institutional changes or influencing their provisions/terms. This particular form of environmental enactment by firms, which constitutes a partial aspect of the outer-structuration notion, has been omitted. This, in particular, resulted from the difficulties involved in gathering data that would be necessary to assess the extent to which different actors can directly influence state policies and government regulations as well as the decisions and acts of other powerful parties such as Central Bank, Treasury, and Banks'Association through active lobbying, co-optation, technical support and similar methods.

This type of information would have certainly been interesting and useful for mapping how and to what extent different types of actors can shape or influence the behaviour and decisions of central institution builders and the process of de- and re-regulation. By facilitating to address the question of to what extent and how certain types of actors can actively involve with the creation of new freedoms and spaces of maneuvre for themselves and the erection of new barriers to maneuvre for others, this type of data would have contributed to a more comprehensive understanding of outer-structuration processes. However, collecting reliable information on this aspect of organizational enactment of the institutional environment would have been quite difficult, if not impossible, as this would require access to and co-operation of important decision makers in that respect, which was not feasible within the confines of our research.

In the main, then, this study has analysed the utilisation and further shaping of new maneuvre spaces by firms as opposed to their creation in the first place. In other words, we have not been concerned as much with the process of creation of more freedom as with its utilisation. Thus, the study featured an important co-evolutionary aspect as it dealt with the effects of certain external changes such as government regulations and state policies on the way firms deal with and shape other aspects of the external context such as different types of competitors and their strategies, different types of customers and suppliers, the available resource spaces, business norms and models, and the more general business system characteristics. This should, however, *by no means* imply that "… large-scale socio-economic forces … are ***non***coevolutionary resources and constraints in the context of which firms evolve" (McKelvey, 1997, p. 359).

11.8 Some Final Remarks

We have described and explained the dominant and less dominant forms and templates of business, as well as the changes and continuities in these, within the framework of a specific national industry. We tried to reflect the extent to which organisations may differ in reflecting the business system features, in which they are embedded, and the extent they are affected by these. When doing this, we tried to show, in a dynamic, co-evolutionary research format, the extent of loose or tight coupling in a given industry, and more importantly, its implications for firm behaviour and enterprise strategy. We tried to pay attention to power structures and domination patterns, the consequences of which were influential for adjustments and change as well as the reproduction and perseverance of dominant business templates. Often, we were confronted with the difficulty of identifying features that were less distinct and not easily identifiable. Still, we hope to have been able to reflect that more unique and persistent combinations of business practice were closely associated with stronger inter-dependencies among different systemic aspects at both the organisation and supra-organisation level.

We have established how different theories can complement each other, be valid at the same time, and play a part in explaining organisational phenomena as comprehensively as possible. We have tried to do so by investigating the focal research topic(s) as comprehensively and thoroughly as possible, within limits of accessible or collectable historical data. We hope to have produced an exhaustive account and explanation(s) for the chosen research topic(s), which to our knowledge is not yet available in our scientific field. However, completeness is an ambitious and elusive goal, to say the least. It could be possible that another researcher and research may add to or refute our explanations by taking some other factors and approach into consideration, which may been neglected in our investigation. This, we hope, would very much enrich the understanding of such complex co-evolutionary phenomena and further contribute to the dialogue among a multitude of theoretical perspectives.

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APPENDICES

APPENDIX 1

COMPLETE LIST OF BANKS

TIME OF FOUNDING					BANKS			
< 1920	1920-1940	1940-1960	1960-1980	1980-2000	1969	1979	1989	1999
1919					*Banka Com. Italiana*			
1919					Adapazari Emniyet			
	1932				**Efesbank**			
		1958			**Maden Kredi**			
			1962		Saglik Bankasi			
			1962		**Anadolu**	**Anadolu**		
1917					**T. Bagcilar**	**T. Bagcilar**		
1929					Elazig Iktisat	**Elazig Iktisat**		
1926					Afyon Terakki Seret	**Hisarbank**		
		1953			**Istanbul Bankasi**	**Istanbul Bankasi**		
		1954			**Isci Kredi Bankasi**	**Isci Kredi Bankasi**		
			1976			Dev. San. Isci Yatr.		
	1933				Iller B. (3.4%)	Iller Bankasi		
1868					Ist. Emniyet San.	Ist. Emniyet San.		
			1962		Turizm	Turizm		
		1952			Denizcilik (3.6%)	Denizcilik (2.7%)	Denizcilik	**Denizbank**
	1935				Etibank (8.7%)	Etibank (4.6%)	Etibank (2.9%)	**Etibank**
	1933				Sumerb. (4.3%)	Sumerbank	Sumerbank	**Sumerbank**
1863					Ziraat (24.3%)	Ziraat (23.1%)	Ziraat (22.1%)	Ziraat (17.5%)
	1927				Emlak (11.5%)	Emlak (3.4%)	Emlak (9.9%)	Emlak (4.8%)
	1938				Halk (2.5%)	Halk (7.6%)	Halk (4.8%)	Halk (10.4%)
		1959			Ogretmenler	Ogretmenler	Ogretmenler	
		1954			Vakiflar	Vakiflar (3.4%)	Vakiflar (5.9%)	Vakiflar (4.9%)
		1948			**Akbank (4.4%)**	**Akbank (10.8%)**	**Akbank (7.0%)**	**Akbank (6.3%)**
		1958			**Caybank**	**Caybank**	**Cayb./ Derbank**	**Bayindirbank**
		1953			**Demirbank**	**Demirbank**	**Demirbank**	**Demirbank (3.0%)**
	1928				**Egebank**	**Egebank**	**Egebank**	**Egebank**
	1927				**Eskisehir**	**Eskisehir**	**Eskisehir**	**Eskisehir**
	1927				Denizli Iktisat	**Denizli Iktisat**	**Iktisat**	**Iktisat**
1914					**Milli Aydin**	**Milli Aydin**	**Milli Aydin**	**Milli Aydin**
		1955			**Pamukbank**	**Pamukbank**	**Pamukb. (4.2%)**	**Pamukbank (4.8%)**
		1954			**Sekerbank**	**Sekerbank**	**Sekerbank**	**Sekerbank**
			1964		**Amer. T. Dis Tic.**	**T. Dis Ticaret**	**T. Dis Ticaret**	**T. Dis Ticaret**
	1927				**Kocaeli Bankasi**	**Kocaeli Bankasi**	**T. Ekonomi**	**T. Ekonomi**
1914					**T. Ticaret**	**T. Ticaret (4.3%)**	**T. Ticaret**	**T. Ticaret**
		1946			**T. Garanti**	**T. Garanti**	**T. Garanti (4.2%)**	**T. Garanti (6.6%)**
	1928				**T. Imar**	**T. Imar**	**T. Imar**	**T. Imar**
	1924				**T. Is (14.7%)**	**T. Is (19.0%)**	**T. Is (11.9%)**	**T. Is (6.9%)**
	1924				**T. Tutunculer**	**T. Tutunculer**	**T. Tutunculer**	**T. Tutunculer**
1888					*Uluslar. End. Tic.*	**Uluslar. End. Tic.**	**Uluslar. End. Tic.**	**Interbank**
		1944			**Yapi Kredi (7.1%)**	**Yapi Kredi (8.8%)**	**Yapi Kredi (6.5%)**	**Yapi Kredi (7.1%)**
1963					*Osmanli*	*Osmanli*	*Osmanli*	*Osmanli*
1911					*Banka di Roma*	*Banka di Roma*	*Banka di Roma*	*Banka di Roma*
	1921				*Hollantse Bank*	*Hollantse Bank*	*Hollantse Bank*	*ABN Amro*
			1977			*Arap-Turk*	*Arap-Turk*	*Arap-Turk*
				1985			**Adabank**	**Adabank**
				1987			**Finansbank**	**Finansbank**
				1986			**Koc-Amerikan**	**Kocbank**
				1986			**Tekstilbank**	**Tekstilbank**
				1988			**Netbank**	
				1984			**T. Ithal. Ihracat**	
				1988			**T.Tur.Yat.Dis Tic.**	

(table continued)

TIME OF FOUNDING					BANKS			
				1985			*Bnp Ak Dresdner*	*Bnp Ak Dresdner*
				1988			*Bir. Turk Korfez*	**Birl. Turk Korfez**
				1985			*Turk Mitsui*	**Turk Sakura**
				1982			*Bank Mellat*	*Bank Mellat*
				1986			*B. Bahrain & Kuw.*	
				1982			*BCCI*	
				1986			*Banque Indosuez*	**Bank Kapital**
				1981			*Citibank*	*Citibank*
				1988			*Credit Lyonnais*	*Credit Lyonnais*
				1983			*Habib Bank Ltd*	*Habib Bank Litd*
				1989			*Kibris Kredi*	*Kibris Kredi*
				1984			*Man. Hannover T.*	**Sitebank**
				1985			*Saudi American*	*Ulusalbank*
				1986			*Stand. Chartered*	*W.Deutsche Land.*
				1984			*Chase Manhattan*	*Chase Manhattan*
				1984			*F. Nat. Bank Bost.*	**Oyakbank**
				1982			*Turk Bank. Ltd*	**Turkish Bank**
				1992				**Alternatifbank**
				1997				**Anadolubank**
				1995				**Ege Giyim San. B.**
				1992				**Kentbank**
				1992				**MNG Bank**
				1992				**Toprakbank**
				1992				**Bank Ekspres**
				1993				**Yurtbank**
				1990				*HSBC Bank*
				1997				*ING Bank*
				1997				*Rabobank*
				1990				*Societe Generale*
				1999				*Morgan Guar. Trust*
				1999				*Crd. Sui.s F. Boston*

Categories: State-owned; **Private;** *Foreign,* Regional
Largest 10 banks and their market shares are highlighted.

APPENDIX 2

A) THE RELATIONSHIP OF QUANTITATIVE VARIABLES WITH BANKING TEMPLATE DIMENSIONS

I. FUNDS GENERATION ITEMS	
Deposit Business (Share of Total Deposits in Total Assets/Liabilities Portfolio)	Deposits normally constitute the major source of funds for a commercial retail bank. The weight of deposits in a bank's total portfolio of funds can therefore be considered a useful indicator of the extent of conventional *commercial banking* activity as opposed to investment banking-like operations. At the same time, the weight of deposits can also function as at least a crude indicator of *retail banking* orientation as opposed to wholesale banking. It should be considered a "crude" indicator, because the composition of deposits is also important to the extent it indicates the weights of different types of deposits associated with different customer types.
Composition of Deposits Portfolio (Share of Different Types of Deposits in Total Deposits Portfolio)	The specific composition of deposits constitutes a further indicator of the extent of customer diversification and a bank's retail versus wholesale approach. The breakdown of deposits in the available data set differentiates between savings deposits, commercial deposits, public deposits, bank deposits, and foreign exchange deposits. Savings deposits, which can also be identified as time deposits, indicate the extent a bank deals with individual customers, and therefore with *retail* business. Likewise, commercial deposits, public deposits, and bank deposits indicate the extent of involvement with private firms, public enterprises or state offices, and banks, respectively, and therefore with *wholesale* business. The only type of deposit, which cannot be associated with a certain customer group, is foreign exchange deposits, as these may involve any type of customer. As foreign exchange deposits constituted a significant portion of banks' total deposits portfolio in the 1980s and 1990s (they didn't exist previously), the interpretation of data pertaining to that period is less precise due to the assumption of equal share of different customer groups in foreign exchange deposits.
Inter-bank Funding and International Funding (Share of Loans from Local Banks and Share of Loans from Abroad in Total Assets/Liabilities Portfolio)	These constitute the two major alternatives to deposit taking as a form of funds generation. The weights of these funds in a bank's funds portfolio serve as an indicator of a *wholesale banking* as opposed to retail. The extent of reliance on international funds in addition serves as an important sign of the extent of internationalisation or international involvement.
Equity Funding (Share of Total Equity in Total Assets/Liabilities Portfolio)	Although this item does not tell much about a bank's strategic orientation and operational style, not least because it is a strongly regulated item and is not very much open to managerial influence, it deserves a short look and comment. This is because it shows the extent of owner commitment as well as capital adequacy and therefore is an indicator of higher *safety and reliability*.
Diversification (vs. Concentration) of Funds Generation Items	An overall diversification of funds generation mechanisms is an indicator of a *generalist or hybrid strategy*. Alternatively, heavy concentration in specific funds generation activities may indicate a strong *specialist orientation in terms of retail vs. wholesale banking*, depending on the nature of items concerned.

II. FUNDS PLACEMENT ITEMS	
Credit Business (Share of Total Credits/Loans in Total Assets Portfolio)	Credit business is normally the reson-d'etre of a commercial bank. The extent of a bank's usage of funds in the form of credits (loans to firms and individuals) is the most important indicator of *commercial banking* as opposed to an investment banking-like business template.
Securities Business (Share of Total Securities in Total Assets Portfolio)	In contrast to credit business, this item is an indicator of the extent a bank operates like an *investment bank* as opposed to a conventional commercial bank. It also indicates wholesale banking approach.
Inter-bank Funds Placements (Share of Total Loans to Banks in Total Assets Portfolio)	This is another important indicator of a *wholesale* approach as opposed to retail.
Equity Participations (Share of Total Participations Portfolio in Total Assets Portfolio)	By reflecting a bank's direct involvement and integration with industry, this item indicates an *investment* banking-like template.
Diversification (vs. Concentration) of Funds Placement Items	An overall diversification of funds placement activities is an indicator of a *universal banking* template, which is another type of generalism. Alternatively, heavy concentration in specific funds placement activities may indicate a strong *specialist orientation in terms of commercial vs. investment banking*, depending on the nature of items concerned.

III. REVENUE ITEMS	
The first three revenue sources are usually, but not always, inter-dependent and correlated with some of the funds generation and placement variables. The next three types of revenues do not have a counterpart among funds generation and placement variables. Commission and fee revenues might be associated with any or none of the various funds placement activities. Capital market revenues is not necessarily related with a bank's securities portfolio, as the former is normally associated with trading in rather than holding of securities. Finally, foreign exchange income is related with trading in foreign exchange and arises either from the margin a bank earns on foreign exchange transactions or from rises in the value of foreign exchange denominated assets. Nevertheless, these types of revenues also deserve a look, as they are still useful as a banking template indicator.	
Interest Income from Credits (Share of Interest Revenues from Credits in Total Revenues Portfolio)	The weight of interest revenues earned on credits indicates, like the weight of credits in a bank's total assets portfolio, the extent of a bank's credit orientation and therefore the degree of its conformance to *commercial banking* template. However, it would be also normal that these two indicators do not overlap completely, because interest earned on credits depends on the amount of credits supplied as well as the rate of interest charged on those credits. Even the amount of delinquent credits would have an effect on the amount of interest collected. Thus, the revenue earned on credits is also a function of a bank's performance in addition to its strategic orientation and operational style. Therefore, it might be just to say that the weight of credits in a bank's total asset portfolio constitutes a more reliable indicator of credit orientation than the portion of interest income earned on credits within total revenues, if a substantial discrepancy exits between the two.
Interest Income from Securities (Share of Interest Revenues from Securities in Total Revenues	The weight of interest revenues earned on securities portfolio indicates, like the weight of securities in a bank's total assets portfolio, the degree of a bank's *investment banking*-like activities as well as a wholesale approach.

Portfolio)	
Income from Participations (Share of Income Received from Participations in Total revenues Portfolio)	The weight of such revenues within total revenues can be considered as another indicator of the degree of direct involvement and integration of a bank with industry. However, income from participations may not always be associated with the weight of equity participations in total asset portfolio. This does not necessarily indicate anything special except that equity participations do possibly not represent an investment for the purpose of income generation.
Commissions and Fees (Share of Income in the Form of Commission Earnings and Fees in Total Portfolio of Revenues)	Firstly, this is an indicator of the extent a bank operates as a financial *service provider* as opposed to acting simply as a financial intermediary. By indirectly reflecting a lower dependence on interest and foreign exchange revenues and therefore also less vulnerability to interest and foreign exchange risks, it also serves as an indicator of higher safety and a *risk averse banking* style.
Foreign Exchange Revenues (Share of Revenues Generated through Trading in Foreign Exchange in Total Revenues Portfolio)	Unlike funds borrowed from abroad, this item does not directly indicate international involvement or internationalisation. However, to the extent it reflects an expertise in foreign exchange products and markets and in foreign trade, it can as well serve as another indicator of *internationalisation*. It also is an indicator of conventional *commercial banking* for the same reasons, but does not indicate anything about wholesale versus retail orientation.
Capital Market Revenues (Share of Revenues Generated through Trading in Capital Markets in Total Revenues Portfolio)	Although trading in capital market instruments, like investments in securities, is in general more closely associated with *investment banking* activities rather than commercial banking, unlike investments in securities, it can be an important indicator of *retail banking* as opposed to wholesale banking. This is because such trading activity usually involves a large number of customers, whereas a bank's own investments in insecurities is clearly a wholesale banking activity, involving a few customers in need of raising large funds. It should be mentioned that trading in capital market instruments (fixed income instruments such as bonds, bills and repo-agreements as well as variable income instruments such as stocks) was a rather recent development starting in mid 1980s.
Diversification (vs. Concentration) of Revenue Items	An overall diversification of revenues is an indicator of a *universal banking* template, which is another type of generalism. Alternatively, heavy concentration of specific revenues may indicate a *strong specialist orientation in terms of commercial vs. investment banking*, depending on the nature of items concerned.

V. SIZE ITEMS	
Branch Network and Market Share and Personnel Size and Market Share	These normally indicate a *retail banking* orientation.

V. OTHER ITEMS	
Total Revenues per Branch and Total Revenues per Employee	In general such are considered an indicator of efficiency, especially when comparing banks of similar size, but they also may tell something regarding a bank's retail or wholesale orientation. The higher the revenues per branch and per employee, the closer the bank normally gets to operating with a *wholesale orientation*, especially when branch network is also relatively small.

B) LIST OF VARIABLES

VARIABLE NAMES AND THEIR MEANINGS		
	Name	Meaning
Independent (Explanatory) Variables	YEAR OWNER NO CP	Time Interval (1969, 1979, 1989, 1999) Affiliation(State, Private, Foreign) Institutional Age (New, Old) Institutional Power (Core, Periphery)
Size Items-I	BR PERSON ASSETS	Branch Size (relative to sector) Personnel Size (relative to sector) Assets Size (relative to sector)
Funds Generation Items	TCTA SECTA LBFBTA EPTA OUFTA	Credits to Total Assets Securities to Total Assets Inter-Bank Lending to Total Assets Equity Participations to Total Assets Other Uses of Funds to Total Assets
Funds Placement Items	TDTA FFATA CFLBILTA SENITA OSFTA	Deposits to Total Assets Funds from Abroad to Total Assets Inter-Bank Borrowings to Total Assets Shareholders' Equity to Total Assets Other Sources of Funds to Total Assets
Deposit Items	SDTD CDTD PDTD BDTD FXDTD ODTD	Savings Deposits to Total Deposits Commercial Deposits to Total Deposits Public Deposits to Total Deposits Bank Deposits to Total Deposits Foreign Exchange Deposits to Total Deposits Other Deposits to Total Deposits
Revenue Items	IRTR IRCTR IRSTR CFTR FXRTR CMRTR	Interest Revenues to Total Revenues Interest Revenues from Credits to Total Revenues Interest Revenues from Securities to Total Revenues Commission and Fee Revenues to Total Revenues Foreign Exchange Revenues to Total Revenues Capital Market Revenues to Total Revenues
Diversification Measures	DIVFG DIVFP DIVDEP SUMDIV	Diversification of Funds Generation Diversification of Funds Placement Diversification of Deposits Sum of Three Diversification Measures
Size Items-II	NOBR NOPER	Branch Size (absolute) Personnel Size (absolute)

APPENDIX 3

A.1) GROUP MEANS AND VARIANCES[1] - FUNDS GENERATION AND FUNDS PLACEMENT

		FUNDS PLACEMENT ITEMS				FUNDS GENERATION ITEMS		
		Credits	Securities	Inter-bank Lending	Participations	Deposits	Funds From Abroad	Inter-bank Borrowings
1969	State-owned	42 (39)	4 (4)	2 (2)	7 (7)	31 (34)	-	-
	Private Local	37 (3)	17 (2)	3 (0)	5 (1)	58 (5)	-	-
	Foreign	45 (0)	9 (1)	5 (0)	1 (0)	40 (2)	-	-
	Regional	6 (1)	43 (9)	6 (0)	1 (0)	36 (6)	-	
1979	State-owned	41 (3)	5 (0)	3 (0)	6 (1)	33 (10)	-	-
	Private Local	38 (0)	6 (0)	5 (0)	2 (0)	69 (3)	-	-
	Foreign	21 (1)	5 (0)	21 (8)	0 (0)	32 (3)	-	-
1989	State-owned	38 (2)	11 (0)	10 (0)	5 (1)	52 (2)	3 (0)	3 (0)
	Private Local	41 (1)	14 (0)	12 (0)	3 (0)	54 (4)	8 (1)	9 (2)
	Foreign	40 (3)	16 (1)	19 (1)	0 (0)	43 (5)	2 (0)	9 (1)
1999	State-owned	27 (1)	14 (2)	4 (0)	3 (0)	73 (1)	2 (0)	2 (0)
	Private Local	29 (2)	18 (1)	21 (2)	7 (1)	63 (2)	12 (1)	5 (0)
	Foreign	14 (2)	23 (6)	44 (10)	2 (0)	80 (189)	29 (7)	5 (1)
	SDIF	22 (3)	22 (3)	6 (0)	6 (1)	140 (22)	1 (0)	6 (0)

		FUNDS PLACEMENT ITEMS				FUNDS GENERATION ITEMS		
		Credits	Securities	Inter-Bank Lending	Participations	Deposits	Funds From Abroad	Inter-Bank Borrowings
1969	Core	42 (6)	5 (0)	1 (0)	8 (3)	35 (10)	-	-
	Periphery	34 (4)	19 (4)	4 (0)	3 (1)	50 (6)	-	-
1979	Core	40 (4)	6 (0)	2 (0)	1 (0)	51 (5)	-	-
	Periphery	36 (1)	5 (0)	7 (1)	3 (1)	56 (9)	-	-
1989	Core	36 (1)	12 (0)	12 (0)	5 (0)	64 (2)	2 (0)	1 (0)
	Periphery	41 (2)	14 (1)	15 (1)	1 (0)	46 (4)	5 (0)	10 (1)
1999	Core	33 (1)	19 (1)	9 (0)	6 (0)	68 (1)	6 (0)	2 (0)
	Periphery	21 (2)	20 (3)	28 (6)	5 (1)	81 (78)	17 (4)	5 (0)
1989	New	40 (2)	16 (1)	19 (2)	0 (0)	39 (5)	4 (0)	12 (2)
	Old	40 (1)	12 (0)	11 (0)	3 (0)	58 (2)	6 (0)	4 (0)
1999	New	18 (2)	22 (4)	33 (8)	4 (0)	80 (107)	19 (5)	6 (0)
	Old	29 (1)	18 (1)	15 (2)	6 (1)	78 (20)	10 (2)	4 (0)

[1] The first values represents the group means, the second value (in parenthesis) represents the group variances.

A.2) VARIANCE AS % OF MEAN[2] - FUNDS GENERATION AND FUNDS PLACEMENT

		FUNDS PPLACEMENT ITEMS				FUNDS GENERATION ITEMS		
		Credits	Securities	Inter-Bank Lending	Participations	Deposits	Funds From Abroad	Inter-Bank Borrowings
1969	State-owned	93	100	100	100	110	-	-
	Private Local	8	12	0	20	09	-	-
	Foreign	0	11	0	0	5	-	-
	Regional	17	21	0	0	17	-	-
1979	State-owned	7	0	0	17	30	-	-
	Private Local	0	0	0	0	4	-	-
	Foreign	5	0	38	0	9	-	-
1989	State-owned	5	0	0	20	4	0	0
	Private Local	2	0	0	0	7	13	22
	Foreign	8	6	5	0	12	0	11
1999	State-owned	4	14	0	0	1	0	0
	Private Local	7	6	10	14	3	8	0
	Foreign	14	26	23	0	236	24	20

		FUNDS PPLACEMENT ITEMS				FUNDS GENERATION ITEMS		
		Credits	Securities	Inter-Bank Lending	Participations	Deposits	Funds From Abroad	Inter-Bank Borrowings
1969	Core	14	0	0	38	29	-	-
	Periphery	12	21	0	33	12	-	-
1979	Core	10	0	0	0	10	-	-
	Periphery	3	0	14	33	16	-	-
1989	Core	3	0	0	0	3	0	0
	Periphery	5	7	7	0	9	0	10
1999	Core	3	5	0	0	1	0	0
	Periphery	10	15	21	20	96	24	0
1989	New	5	6	11	0	13	0	17
	Old	3	0	0	0	3	0	0
1999	New	11	18	24	0	134	26	0
	Old	3	6	13	17	26	20	0

[2] Higher values indicate higher variation; values are rounded / approximate.

B) GROUP MEANS AND VARIANCES[3] - DEPOSITS

		TYPES OF DEPOSITS				
		Savings	Commercial	Public	Bank	Foreign Ex.
1969	State	60 (66)	19 (18)	13 (13)	8 (3)	-
	Private	67 (4)	21 (1)	2 (0)	10 (4)	-
	Foreign	60 (2)	38 (2)	0 (0)	2 (0)	-
	Regional	59 (14)	8 (1)	0 (0)	23 (16)	-
1979	State	48 (4)	28 (3)	14 (1)	10 (4)	-
	Private	46 (2)	41 (1)	1 (0)	11 (1)	-
	Foreign	25 (3)	53 (6)	0 (0)	21 (7)	-
1989	State	37 (1)	17 (0)	2 (0)	4 (0)	20 (0)
	Private	32 (5)	20 (1)	0 (0)	18 (4)	29 (2)
	Foreign	14 (7)	16 (2)	0 (0)	39 (10)	31 (5)
1999	State	37 (2)	13 (0)	4 (0)	6 (0)	24 (1)
	Private	13 (1)	5 (0)	0 (0)	15 (4)	64 (3)
	Foreign	1 (0)	2 (0)	0 (0)	50 (13)	44 (11)
	SDIF	27 (3)	3 (0)	0 (0)	4 (0)	54 (4)

		TYPES OF DEPOSITS				
		Savings	Commercial	Public	Bank	Foreign Ex.
1969	Core	59 (3)	22 (1)	12 (1)	8 (2)	-
	Periphery	67 (5)	20 (2)	2 (0)	11 (6)	-
1979	Core	48 (0)	34 (1)	11 (1)	7 (0)	-
	Periphery	43 (4)	41 (3)	2 (0)	14 (3)	-
1989	Core	40 (1)	17 (0)	2 (0)	6 (0)	22 (0)
	Periphery	22 (6)	18 (1)	0 (0)	28 (8)	30 (3)
1999	Core	25 (3)	8 (0)	2 (0)	13 (2)	45 (4)
	Periphery	11 (2)	4 (0)	0 (0)	24 (9)	57 (7)
1989	New	12 (6)	17 (2)	0 (0)	42 (9)	29 (4)
	Old	37 (3)	18 (1)	1 (0)	9 (2)	28 (2)
1999	New	9 (2)	3 (0)	0 (0)	32 (12)	53 (9)
	Old	18 (2)	6 (0)	1 (0)	12 (2)	57 (4)

[3] The first values represents the group means, the second value (in parenthesis) represents the group variances.

C) GROUP MEANS AND VARIANCES[4] - REVENUES

		REVENUE ITEMS						
		Interest Credits	Interest Securities	Interest Excl. Int. Securities	Commission	Foreign Exchange	Capital Market	Participation
1969	State	58 (56)	1 (1)	58 (56)	5 (5)	-	-	11 (11)
	Private	71 (3)	2 (0)	71 (3)	18 (1)	-	-	1 (0)
	Foreign	80 (1)	3 (0)	80 (1)	15 (1)	1 (0)	-	1 (0)
	Regional	71 (2)	2 (0)	71 (2)	9 (0)	-	-	0 (0)
1979	State	47 (7)	5 (1)	47 (7)	8 (1)	2 (0)	-	6 (3)
	Private	62 (3)	7 (0)	62 (3)	15 (1)	1 (0)	-	1 (0)
	Foreign	69 (1)	4 (0)	69 (1)	13 (0)	6 (0)	-	1 (0)
1989	State	39 (4)	13 (1)	54 (4)	3 (0)	7 (0)	4 (0)	5 (2)
	Private	44 (1)	16 (1)	51 (1)	9 (0)	14 (1)	6 (0)	1 (0)
	Foreign	42 (3)	17 (1)	59 (1)	7 (0)	10 (0)	3 (0)	0 (0)
1999	State	28 (2)	14 (2)	64 (8)	2 (0)	17 (6)	2 (0)	0 (0)
	Private	27 (3)	18 (1)	39 (3)	2 (0)	30 (4)	9 (1)	1 (0)
	Foreign	8 (1)	13 (1)	34 (7)	5 (1)	30 (9)	18 (6)	0 (0)
	SDIF	36 (6)	20 (4)	39 (6)	2 (0)	28 (6)	11 (0)	0 (0)

		TYPES OF REVENUES						
		Interest Credits	Interest Securities	Interest Excl. Int. Securities	Commission	Foreign Exchange	Capital Market	Participation
1969	Core	61 (8)	2 (0)	61 (8)	9 (1)	-	-	12 (5)
	Periphery	71(3)	2 (0)	71 (3)	15 (1)	-	-	1 (0)
1979	Core	58 (8)	5 (0)	58 (8)	8 (0)	2 (0)	-	1 (0)
	Periphery	58 (4)	5 (0)	58 (4)	15 (1)	2 (0)	-	3 (1)
1989	Core	45 (2)	17 (0)	52 (2)	5 (0)	9 (1)	4 (0)	6 (1)
	Periphery	42 (2)	16 (1)	55 (2)	8 (0)	12 (1)	5 (0)	0 (0)
1999	Core	30 (3)	21 (2)	47 (7)	3 (0)	24 (4)	4 (0)	1 (0)
	Periphery	21 (3)	16 (1)	38 (4)	3 (0)	30 (6)	13 (3)	0 (0)
1989	New	42 (3)	18 (1)	56 (2)	9 (1)	12 (1)	4 (0)	0 (0)
	Old	44 (2)	14 (1)	53 (2)	7 (0)	12 (1)	5 (0)	2 (0)
1999	New	16 (4)	14 (1)	38 (6)	3 (0)	32 (8)	14 (4)	1 (0)
	Old	29 (3)	19 (2)	41 (4)	3 (0)	26 (3)	9 (1)	0 (0)

[4] The first values represents the group means, the second value (in parenthesis) represents the group variances.

D) ANOVA TABLES

ANOVA: INSTITUTIONAL-ECONOMIC ENVIRONMENT and MAIN AFFILIATION CATEGORIES															
		YEAR							OWNERSHIP						
		Sum of Squares	df	Mean Square	F	Sig.	Eta	Eta Squared	Sum of Squares	df	Mean Square	F	Sig.	Eta	Eta Squared
TCTA	Between Gr	.976	3	.325	13.795	.000	.419	.176	.222	2	.111	4.072	.019	.200	.040
	Within Gr	4.573	194	.024					5.326	195	.027				
	Total	5.549	197						5.549	197					
SECTA	Between Gr	.522	3	.174	9.649	.000	.360	.130	.243	2	.121	6.263	.002	.246	.060
	Within Gr	3.497	194	.018					3.776	195	.019				
	Total	4.019	197						4.019	197					
LBFBTA	Between Gr	1.477	3	.492	20.932	.000	.495	.245	1.365	2	.683	28.468	.000	.475	.226
	Within Gr	4.563	194	.024					4.675	195	.024				
	Total	6.040	197						6.040	197					
EPTA	Between Gr	.031	3	.010	1.777	.153	.164	.027	.053	2	.026	4.686	.010	.214	.046
	Within Gr	1.114	194	.006					1.093	195	.006				
	Total	1.145	197						1.145	197					
OUFTA	Between Gr	1.493	3	.498	20.188	.000	.488	.238	.732	2	.366	12.879	.000	.342	.117
	Within Gr	4.782	194	.025					5.543	195	.028				
	Total	6.275	197						6.275	197					
TDTA	Between Gr	3.689	3	1.230	4.957	.002	.267	.071	1.625	2	.813	3.157	.045	.177	.031
	Within Gr	48.131	194	.248					50.195	195	.257				
	Total	51.820	197						51.820	197					
FFATA	Between Gr	.805	3	.268	21.233	.000	.497	.247	.281	2	.140	9.196	.000	.294	.086
	Within Gr	2.452	194	.013					2.977	195	.015				
	Total	3.258	197						3.258	197					
ICFLBILTA	Between Gr	.224	3	.075	17.446	.000	.461	.212	.051	2	.025	4.951	.008	.220	.048
	Within Gr	.831	194	.004					1.004	195	.005				
	Total	1.055	197						1.055	197					
SENITA	Between Gr	1.873	3	.624	3.865	.010	.237	.056	1.268	2	.634	3.870	.022	.195	.038
	Within Gr	31.343	194	.162					31.948	195	.164				
	Total	33.216	197						33.216	197					
OSFTA	Between Gr	2.999	3	1.000	3.364	.020	.222	.049	2.512	2	1.256	4.212	.016	.204	.041
	Within Gr	57.660	194	.297					58.147	195	.298				
	Total	60.659	197						60.659	197					
SDTD	Between Gr	6.987	3	2.329	59.326	.000	.700	.490	2.184	2	1.092	16.835	.000	.392	.153

	Within Gr	7.263	185	.039					12.066	186	.065				
	Total	14.251	188						14.251	188					
CDTD	Between Gr	2.685	3	.895	73.272	.000	.737	.543	.013	2	.007	.250	.779	.052	.003
	Within Gr	2.260	185	.012					4.932	186	.027				
	Total	4.945	188						4.945	188					
PDTD	Between Gr	.078	3	.026	10.095	.000	.375	.141	.220	2	.110	61.540	.000	.631	.398
	Within Gr	.475	185	.003					.333	186	.002				
	Total	.553	188						.553	188					
BDTD	Between Gr	.713	3	.238	3.903	.010	.244	.060	2.294	2	1.147	22.030	.000	.438	.192
	Within Gr	11.265	185	.061					9.684	186	.052				
	Total	11.978	188						11.978	188					
FXDTD	Between Gr	9.836	3	3.279	122.715	.000	.816	.666	1.032	2	.516	6.980	.001	.264	.070
	Within Gr	4.943	185	.027					13.747	186	.074				
	Total	14.779	188						14.779	188					
ODTD	Between Gr	.078	3	.026	5.730	.001	.292	.085	.083	2	.041	9.265	.000	.301	.091
	Within Gr	.837	185	.005					.832	186	.004				
	Total	.915	188						.915	188					
DIVFG	Between Gr	194.392	3	64.797	3.628	.014	.230	.053	63.936	2	31.968	1.734	.179	.132	.017
	Within Gr	3464.704	194	17.859					3595.160	195	18.437				
	Total	3659.096	197						3659.096	197					
DIVFP	Between Gr	.488	3	.163	9.730	.000	.362	.131	.269	2	.135	7.589	.001	.269	.072
	Within Gr	3.243	194	.017					3.461	195	.018				
	Total	3.731	197						3.731	197					
DIVDEP	Between Gr	.892	3	.297	12.898	.000	.416	.173	.505	2	.252	10.100	.000	.313	.098
	Within Gr	4.263	185	.023					4.650	186	.025				
	Total	5.155	188						5.155	188					
SUMDIV	Between Gr	222.882	3	74.294	3.828	.011	.242	.058	86.395	2	43.198	2.156	.119	.151	.023
	Within Gr	3590.456	185	19.408					3726.942	186	20.037				
	Total	3813.338	188						3813.338	188					

ANOVA: INSTITUTIONAL AGE and INSTITUTIONAL POWER

		NEW - OLD							CORE - PERIPHERY						
		Sum of Squares	df	Mean Square	F	Sig.	Eta	Eta Square	Sum of Squares	df	Mean Square	F	Sig.	Eta	Eta Square
TCTA	Between Gr	.265	1	.265	9.835	.002	.219	.048	.107	1	.107	3.836	.052	.139	.019
	Within Gr	5.284	196	.027					5.442	196	.028				
	Total	5.549	197						5.549	197					
SECTA	Between Gr	.205	1	.205	10.510	.001	.226	.051	.086	1	.086	4.272	.040	.146	.021
	Within Gr	3.814	196	.019					3.933	196	.020				
	Total	4.019	197						4.019	197					
LBFBTA	Between Gr	1.466	1	1.466	62.803	.000	.493	.243	.298	1	.298	10.178	.002	.222	.049
	Within Gr	4.574	196	.023					5.742	196	.029				
	Total	6.040	197						6.040	197					
EPTA	Between Gr	.008	1	.008	1.366	.244	.083	.007	.010	1	.010	1.758	.186	.094	.009
	Within Gr	1.137	196	.006					1.135	196	.006				
	Total	1.145	197						1.145	197					
OUFTA	Between Gr	1.121	1	1.121	42.648	.000	.423	.179	.169	1	.169	5.437	.021	.164	.027
	Within Gr	5.154	196	.026					6.106	196	.031				
	Total	6.275	197						6.275	197					
TDTA	Between Gr	.098	1	.098	.370	.544	.043	.002	.101	1	.101	.383	.537	.044	.002
	Within Gr	51.722	196	.264					51.719	196	.264				
	Total	51.820	197						51.820	197					
FFATA	Between Gr	.383	1	.383	26.123	.000	.343	.118	.079	1	.079	4.890	.028	.156	.024
	Within Gr	2.875	196	.015					3.178	196	.016				
	Total	3.258	197						3.258	197					
ICFLBILTA	Between Gr	.193	1	.193	43.974	.000	.428	.183	.045	1	.045	8.652	.004	.206	.042
	Within Gr	.861	196	.004					1.010	196	.005				
	Total	1.055	197						1.055	197					
SENITA	Between Gr	.223	1	.223	1.322	.252	.082	.007	.025	1	.025	.149	.700	.028	.001
	Within Gr	32.993	196	.168					33.191	196	.169				
	Total	33.216	197						33.216	197					
OSFTA	Between Gr	3.397	1	3.397	11.626	.001	.237	.056	.425	1	.425	1.382	.241	.084	.007
	Within Gr	57.262	196	.292					60.234	196	.307				
	Total	60.659	197						60.659	197					
SDTD	Between Gr	4.140	1	4.140	76.559	.000	.539	.290	.361	1	.361	4.859	.029	.159	.025
	Within Gr	10.111	187	.054					13.890	187	.074				
	Total	14.251	188						14.251	188					

CDTD	Between Gr	.601	1	.601	25.872	.000	.349	.122	.011	1	.011	.415	.520	.047	.002
	Within Gr	4.344	187	.023					4.934	187	.026				
	Total	4.945	188						4.945	188					
PDTD	Between Gr	.029	1	.029	10.311	.002	.229	.052	.111	1	.111	46.858	.000	.448	.200
	Within Gr	.524	187	.003					.442	187	.002				
	Total	.553	188						.553	188					
BDTD	Between Gr	2.611	1	2.611	52.127	.000	.467	.218	.494	1	.494	8.049	.005	.203	.041
	Within Gr	9.367	187	.050					11.483	187	.061				
	Total	11.978	188						11.978	188					
FXDTD	Between Gr	1.964	1	1.964	28.653	.000	.365	.133	.282	1	.282	3.634	.058	.138	.019
	Within Gr	12.815	187	.069					14.497	187	.078				
	Total	14.779	188						14.779	188					
ODTD	Between Gr	.001	1	.001	.306	.581	.040	.002	.037	1	.037	7.903	.005	.201	.041
	Within Gr	.913	187	.005					.878	187	.005				
	Total	.915	188						.915	188					
DIVFG	Between Gr	60.635	1	60.635	3.303	.071	.129	.017	20.772	1	20.772	1.119	.291	.075	.006
	Within Gr	3598.461	196	18.359					3638.324	196	18.563				
	Total	3659.096	197						3659.096	197					
DIVFP	Between Gr	.012	1	.012	.658	.418	.058	.003	.024	1	.024	1.249	.265	.080	.006
	Within Gr	3.718	196	.019					3.707	196	.019				
	Total	3.731	197						3.731	197					
DIVDEP	Between Gr	.318	1	.318	12.297	.001	.248	.062	.627	1	.627	25.880	.000	.349	.122
	Within Gr	4.837	187	.026					4.528	187	.024				
	Total	5.155	188						5.155	188					
SUMDIV	Between Gr	77.670	1	77.670	3.888	.050	.143	.020	29.568	1	29.568	1.461	.228	.088	.008
	Within Gr	3735.667	187	19.977					3783.770	187	20.234				
	Total	3813.338	188						3813.338	188					

E) SUB-GROUP MEANS - ALL VARIABLES

MEAN VALUES – SPECIFIC SUB-GROUPS												
			Periphery							Core		
			Old				New			Old		
			State	Private	Foreign		Private	Foreign		State	Private	
TCT A	Year	1969	.41	.30	.45	.34	.	.	.	.42	.44	.43
		1979	.43	.38	.21	.36	.	.	.	.40	.41	.40
		1989	.39	.43	.44	.43	.43	.39	.40	.38	.35	.36
		1999	.	.26	.29	.27	.26	.10	.18	.27	.37	.33
	Group Total		.42	.34	.35	.35	.31	.25	.28	.38	.38	.38
SECTA	Year	1969	.05	.22	.09	.19	.	.	.	.03	.13	.05
		1979	.07	.05	.05	.05	.	.	.	.04	.09	.06
		1989	.09	.13	.11	.12	.15	.17	.16	.11	.12	.12
		1999	.	.19	.12	.17	.18	.27	.22	.14	.22	.19
	Group Total		.07	.15	.09	.13	.17	.21	.19	.07	.15	.10
LBFBTA	Year	1969	.03	.04	.05	.04	.	.	.	.01	.02	.01
		1979	.03	.06	.21	.07	.	.	.	.02	.02	.02
		1989	.11	.09	.15	.11	.15	.20	.19	.10	.14	.12
		1999	.	.14	.37	.19	.23	.46	.33	.04	.12	.09
	Group Total		.05	.07	.19	.09	.21	.32	.27	.04	.09	.06
EPTA	Year	1969	.01	.04	.01	.03	.	.	.	.09	.03	.08
		1979	.10	.02	.00	.03	.	.	.	.01	.02	.01
		1989	.03	.03	.01	.02	.01	.00	.00	.06	.05	.05
		1999	.	.07	.02	.06	.06	.02	.04	.03	.08	.06
	Group Total		.06	.04	.01	.04	.05	.01	.03	.05	.05	.05
TDTA	Year	1969	.51	.52	.40	.50	.	.	.	.24	.76	.34
		1979	.27	.69	.32	.56	.	.	.	.40	.68	.51
		1989	.44	.55	.63	.55	.41	.38	.39	.57	.71	.64
		1999	.	.97	.29	.83	.68	.93	.80	.73	.65	.68
	Group Total		.37	.67	.41	.59	.61	.64	.62	.44	.69	.54
FFATA	Year	1969	.00	.00	.00	.00	.	.	.	.00	.00	.00
		1979	.00	.00	.00	.00	.	.	.	.00	.00	.00
		1989	.05	.09	.05	.07	.11	.01	.04	.02	.02	.02
		1999	.	.09	.22	.12	.10	.31	.19	.02	.08	.06
	Group Total		.01	.03	.06	.04	.10	.15	.13	.01	.04	.02
ICFLBILTA	Year	1969	.00	.00	.00	.00	.	.	.	.00	.00	.00
		1979	.00	.00	.00	.00	.	.	.	.00	.00	.00
		1989	.06	.06	.07	.06	.20	.09	.12	.01	.01	.01
		1999	.	.05	.03	.05	.06	.05	.06	.02	.02	.02
	Group Total		.01	.02	.02	.02	.10	.08	.09	.00	.01	.01
SDTD	Year	1969	.76	.68	.60	.67	.	.	.	.56	.69	.58
		1979	.49	.45	.25	.43	.	.	.	.47	.49	.48
		1989	.46	.36	.27	.36	.15	.10	.12	.32	.48	.40
		1999	.	.18	.04	.15	.14	.00	.09	.37	.17	.25
	Group Total		.54	.45	.31	.44	.14	.07	.10	.45	.39	.43
CDTD	Year	1969	.10	.17	.38	.20	.	.	.	.21	.25	.22
		1979	.22	.42	.53	.41	.	.	.	.32	.37	.34
		1989	.14	.23	.12	.19	.17	.17	.17	.18	.16	.17
		1999	.	.05	.06	.05	.04	.01	.03	.13	.05	.08
	Group Total		.16	.23	.28	.23	.08	.11	.10	.22	.18	.20

(table continued)

			Periphery							Core		
			Old				New			Old		
			State	Private	Foreign		Private	Foreign		State	Private	
PDTD	Year	1969	.09	.01	.00	.02	.	.	.	.15	.04	.12
		1979	.09	.01	.00	.02	.	.	.	.18	.02	.11
		1989	.01	.00	.00	.00	.00	.00	.00	.03	.00	.01
		1999	.	.00	.00	.00	.00	.00	.00	.04	.00	.02
	Group Total		.06	.01	.00	.01	.00	.00	.00	.11	.01	.07
BDTD	Year	1969	.05	.13	.02	.11	.	.	.	.09	.03	.07
		1979	.21	.11	.21	.14	.	.	.	.03	.12	.07
		1989	.06	.09	.21	.11	.39	.43	.42	.03	.09	.06
		1999	.	.07	.28	.12	.16	.64	.33	.06	.17	.13
	Group Total		.12	.11	.17	.12	.23	.51	.37	.05	.12	.08
FXDTD	Year	1969	.00	.00	.00	.00	.	.	.	.00	.00	.00
		1979	.00	.00	.00	.00	.	.	.	.00	.00	.00
		1989	.21	.31	.38	.31	.29	.29	.29	.19	.25	.22
		1999	.	.66	.56	.64	.61	.34	.51	.24	.60	.45
	Group Total		.07	.19	.22	.19	.52	.31	.41	.08	.28	.17
DIVFG	Year	1969	.38	.47	.53	.47	.	.	.	.47	.38	.45
		1979	.39	.36	.51	.39	.	.	.	.45	.45	.45
		1989	.66	.60	.54	.60	.66	.60	.62	.54	.45	.50
		1999	.	-2.32	.66	-1.69	.03	-4.99	-2.25	.43	.53	.49
	Group Total		.46	-.12	.56	.06	.21	-2.02	-1.04	.47	.47	.47
DIVFP	Year	1969	.54	.58	.61	.58	.	.	.	.43	.64	.47
		1979	.60	.56	.51	.56	.	.	.	.44	.60	.51
		1989	.65	.67	.67	.67	.68	.65	.66	.68	.72	.70
		1999	.	.69	.67	.68	.68	.50	.60	.58	.73	.67
	Group Total		.60	.61	.61	.61	.68	.58	.62	.52	.69	.59
SUMDIV	Year	1969	1.25	1.41	1.60	1.43	.	.	.	1.44	1.49	1.45
		1979	1.42	1.48	1.50	1.47	.	.	.	1.52	1.66	1.57
		1989	2.01	1.90	1.84	1.90	1.94	1.69	1.77	1.96	1.83	1.90
		1999	.	-1.15	1.85	-.52	1.16	-7.00	-1.76	1.73	1.80	1.77
	Group Total		1.58	.97	1.69	1.15	1.38	-1.52	-.13	1.62	1.74	1.67

F) SUB-GROUP STANDARD DEVIATIONS - ALL VARIABLES

STANDARD DEVIATION VALUES – SPECIFIC SUB-GROUPS												
			Periphery							Core		
			Old				New			Old		
			State	Private	Foreign		Private	Foreign		State	Private	
TCTA	Year	1969	.17	.20	.06	.19	.	.	.	.27	.00	.24
		1979	.06	.11	.09	.12	.	.	.	.26	.03	.20
		1989	.15	.10	.02	.09	.08	.18	.16	.13	.04	.10
		1999	.	.12	.16	.13	.15	.09	.15	.08	.11	.11
	Group Total		.10	.16	.14	.15	.15	.21	.19	.21	.07	.17
SECTA	Year	1969	.04	.21	.09	.20	.	.	.	.04	.01	.05
		1979	.08	.06	.05	.06	.	.	.	.05	.01	.04
		1989	.04	.06	.08	.06	.04	.13	.11	.05	.01	.03
		1999	.	.13	.12	.13	.10	.25	.19	.14	.06	.10
	Group Total		.06	.16	.08	.14	.09	.20	.16	.08	.07	.08
LBFBTA	Year	1969	.04	.04	.05	.04	.	.	.	.01	.00	.01
		1979	.01	.06	.28	.12	.	.	.	.02	.01	.01
		1989	.06	.05	.09	.06	.11	.13	.12	.04	.02	.04
		1999	.	.11	.18	.16	.17	.34	.28	.03	.05	.05
	Group Total		.05	.07	.20	.11	.16	.28	.24	.04	.06	.06
EPTA	Year	1969	.00	.11	.01	.10	.	.	.	.19	.02	.17
		1979	.14	.03	.01	.07	.	.	.	.01	.01	.01
		1989	.03	.03	.02	.03	.01	.01	.01	.09	.01	.06
		1999	.	.10	.02	.09	.07	.05	.07	.05	.04	.05
	Group Total		.11	.08	.01	.08	.07	.04	.05	.12	.04	.09
TDTA	Year	1969	.47	.25	.13	.25	.	.	.	.24	.03	.31
		1979	.39	.17	.19	.30	.	.	.	.23	.02	.23
		1989	.14	.17	.12	.16	.20	.23	.21	.16	.05	.13
		1999	.	.53	.15	.55	.25	1.52	1.03	.07	.08	.08
	Group Total		.35	.34	.19	.35	.27	1.07	.82	.27	.07	.24
FFA	Year	1969	.00	.00	.00	.00	.	.	.	.00	.00	.00
		1979	.00	.00	.00	.00	.	.	.	.00	.00	.00
		1989	.02	.07	.06	.07	.10	.03	.07	.02	.02	.02
		1999	.	.12	.25	.16	.12	.26	.22	.01	.03	.04
	Group Total		.03	.08	.14	.09	.12	.23	.19	.02	.04	.03
ICFLBILTA	Year	1969	.00	.00	.00	.00	.	.	.	.00	.00	.00
		1979	.00	.00	.00	.00	.	.	.	.00	.00	.00
		1989	.06	.07	.06	.07	.18	.12	.14	.01	.01	.01
		1999	.	.05	.03	.04	.04	.08	.06	.02	.02	.01
	Group Total		.04	.05	.04	.04	.11	.11	.11	.01	.01	.01
SDTD	Year	1969	.26	.24	.13	.22	.	.	.	.19	.02	.18
		1979	.34	.16	.17	.20	.	.	.	.06	.03	.05
		1989	.02	.22	.23	.20	.20	.26	.24	.07	.11	.12
		1999	.	.11	.03	.12	.16	.01	.15	.16	.12	.17
	Group Total		.26	.26	.26	.27	.17	.21	.19	.16	.20	.18
CDTD	Year	1969	.11	.12	.14	.14	.	.	.	.09	.07	.09
		1979	.22	.12	.25	.17	.	.	.	.11	.06	.09
		1989	.08	.08	.08	.09	.07	.14	.12	.07	.04	.06
		1999	.	.05	.08	.05	.04	.03	.04	.03	.02	.05
	Group Total		.15	.17	.24	.18	.07	.14	.11	.10	.13	.12

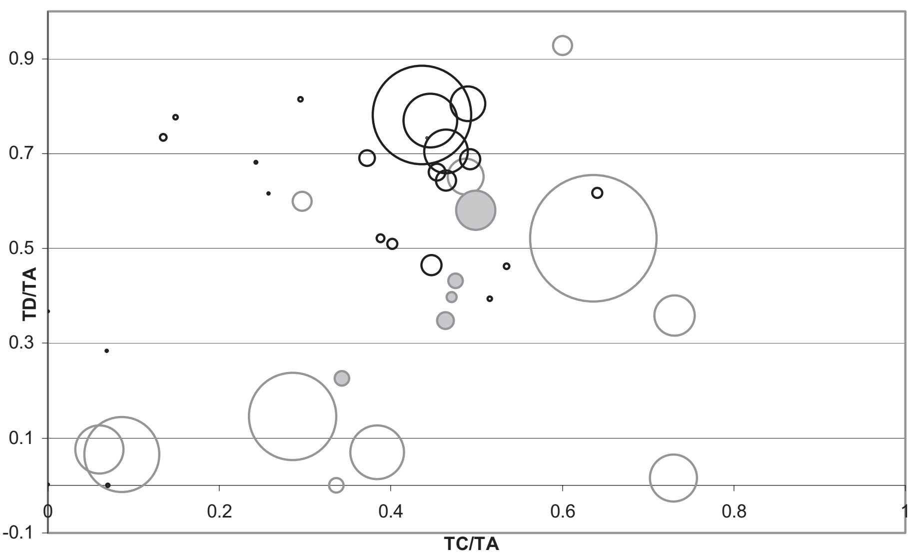
(table continued)

			Periphery							Core		
			Old				New			Old		
			State	Private	Foreign		Private	Foreign		State	Private	
PDTD	Year	1969	.09	.04	.00	.04	.	.	.	.11	.05	.11
		1979	.06	.03	.00	.04	.	.	.	.10	.03	.11
		1989	.01	.00	.00	.00	.00	.00	.00	.04	.00	.03
		1999	.	.00	.00	.00	.00	.00	.00	.02	.00	.02
	Group Total		.06	.03	.00	.03	.00	.00	.00	.10	.02	.09
BDTD	Year	1969	.06	.26	.01	.23	.	.	.	.16	.00	.14
		1979	.31	.12	.27	.18	.	.	.	.01	.04	.05
		1989	.04	.13	.24	.15	.25	.33	.30	.01	.04	.04
		1999	.	.09	.23	.15	.23	.33	.35	.04	.18	.15
	Group Total		.21	.18	.21	.19	.25	.34	.33	.09	.11	.11
FXDTD	Year	1969	.00	.00	.00	.00	.	.	.	.00	.00	.00
		1979	.00	.00	.00	.00	.	.	.	.00	.00	.00
		1989	.06	.17	.14	.15	.12	.24	.21	.05	.07	.06
		1999	.	.15	.15	.15	.23	.33	.30	.11	.07	.20
	Group Total		.11	.28	.27	.27	.25	.27	.28	.12	.26	.21
DIVFG	Year	1969	.21	.11	.08	.11	.	.	.	.09	.04	.09
		1979	.17	.23	.11	.21	.	.	.	.09	.02	.07
		1989	.08	.16	.13	.14	.11	.12	.12	.08	.06	.08
		1999	.	5.80	.05	5.27	1.64	13.77	9.53	.09	.09	.10
	Group Total		.20	2.82	.10	2.40	1.41	9.67	7.34	.09	.08	.08
DIVFP	Year	1969	.07	.14	.05	.12	.	.	.	.13	.01	.14
		1979	.06	.14	.12	.12	.	.	.	.15	.02	.14
		1989	.03	.04	.03	.04	.04	.06	.06	.05	.01	.04
		1999	.	.08	.07	.07	.13	.24	.21	.12	.06	.11
	Group Total		.07	.12	.09	.11	.11	.18	.16	.15	.07	.15
SUMDIV	Year	1969	.68	.30	.09	.31	.	.	.	.22	.02	.20
		1979	.46	.37	.28	.36	.	.	.	.24	.05	.20
		1989	.07	.22	.17	.19	.19	.21	.23	.09	.05	.10
		1999	.	5.79	.17	5.26	1.72	16.71	10.52	.23	.12	.16
	Group Total		.50	2.83	.23	2.45	1.50	10.72	7.86	.28	.14	.24

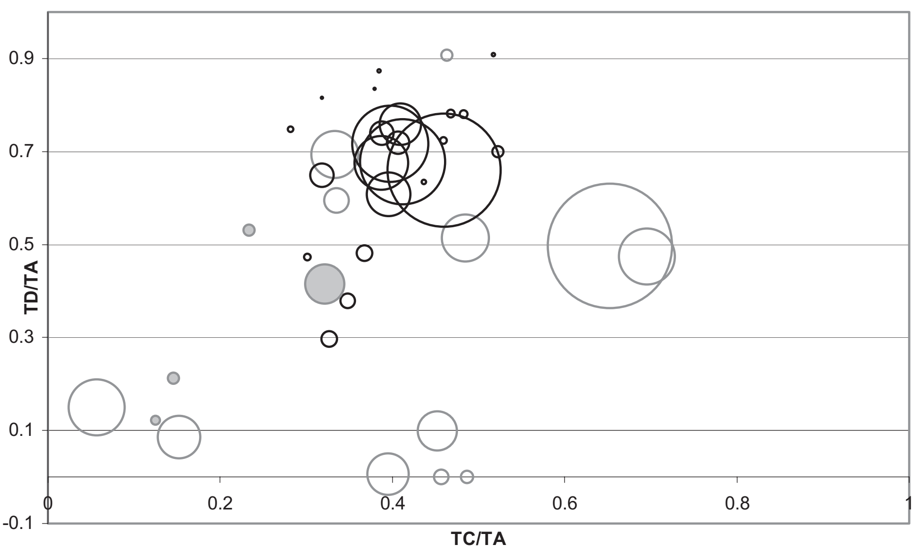
APPENDIX 4

CREDITS AND DEPOSITS

1969



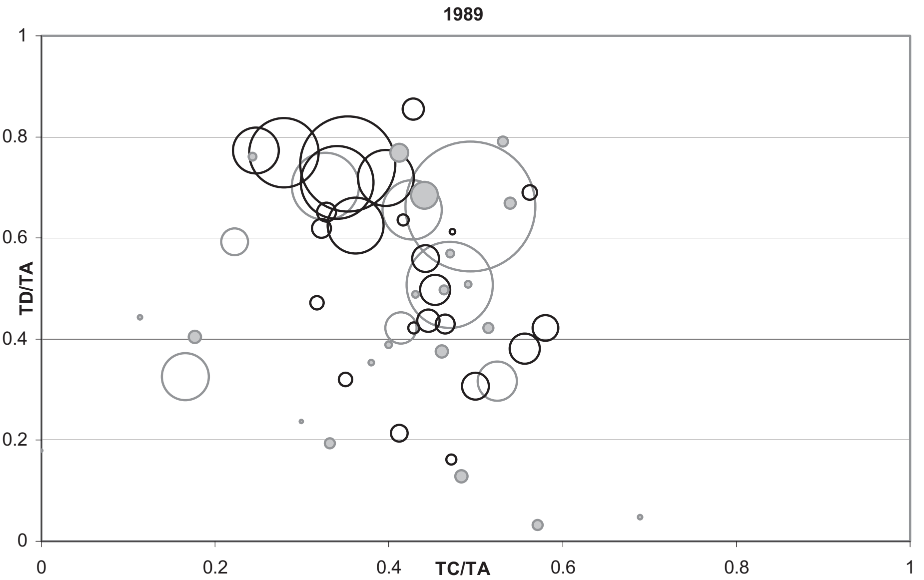
1979

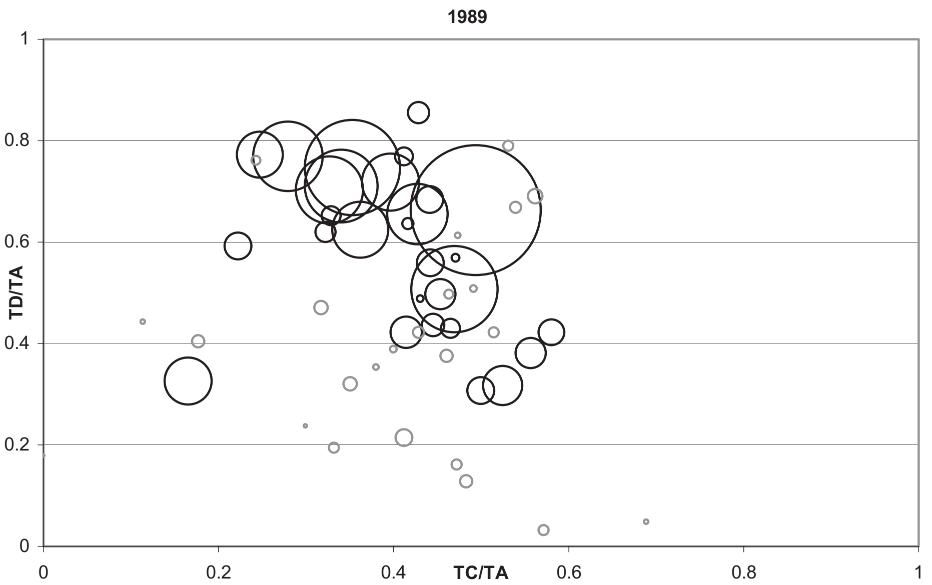


LEGEND Bubble Size = TA: Total Assets

Black	*Private*
Gray	*State*
Gray Shaded	*Foreign*

CREDITS AND DEPOSITS

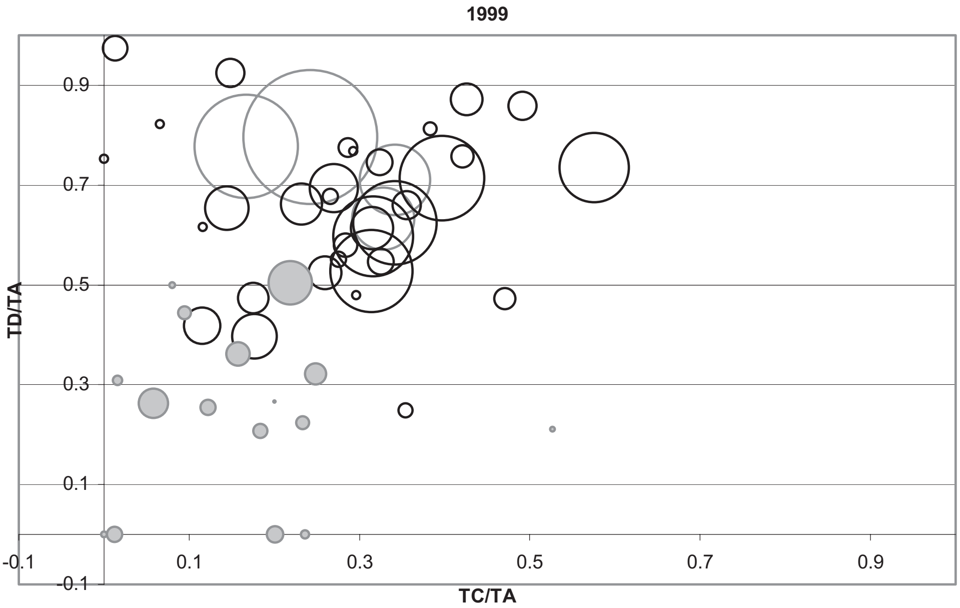


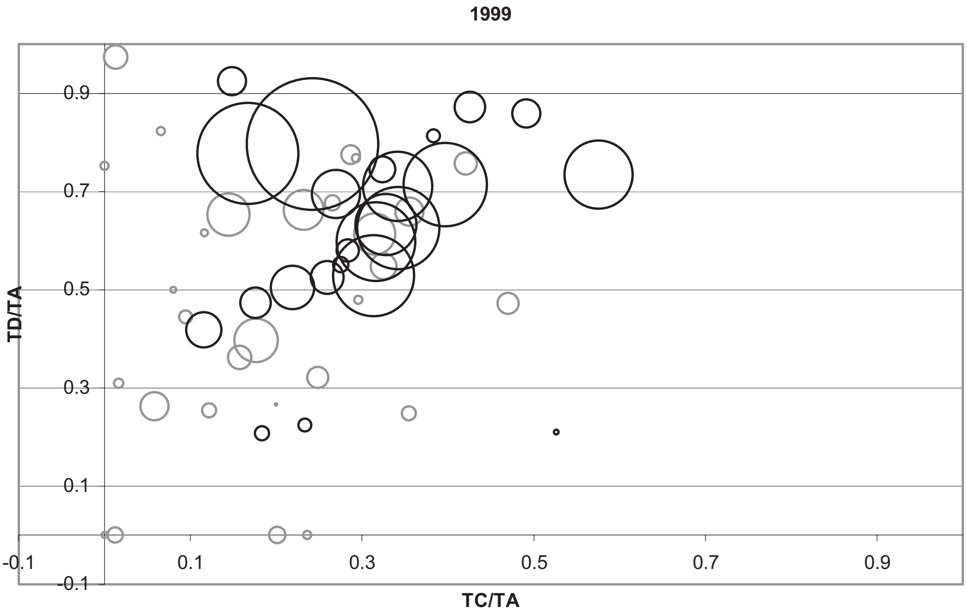


LEGEND Bubble Size = TA: Total Assets

Black	*Private*	*OR*	*Old (2nd Chart)*
Gray	*State*	*OR*	*New (2nd Chart)*
Gray Shaded	*Foreign*		

CREDITS AND DEPOSITS





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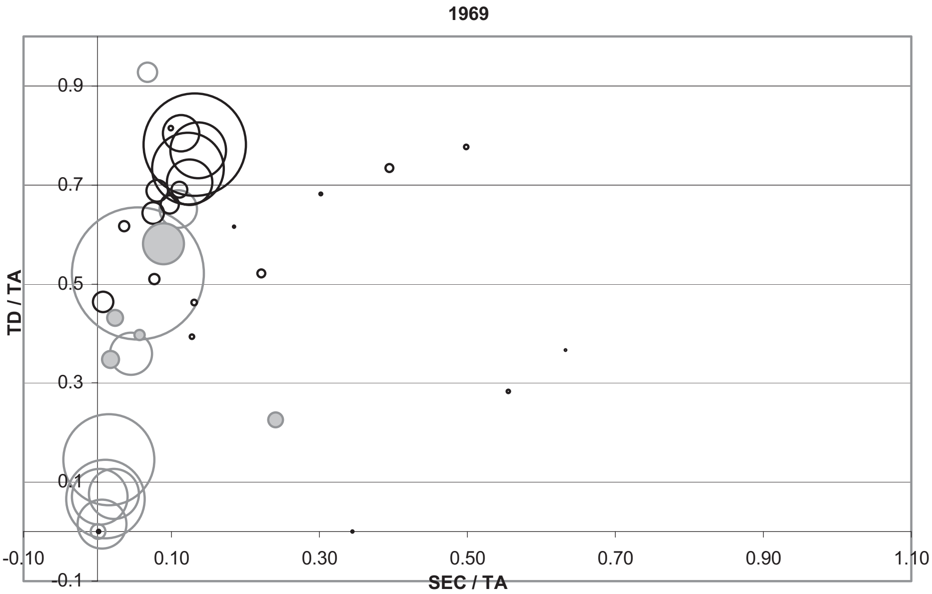

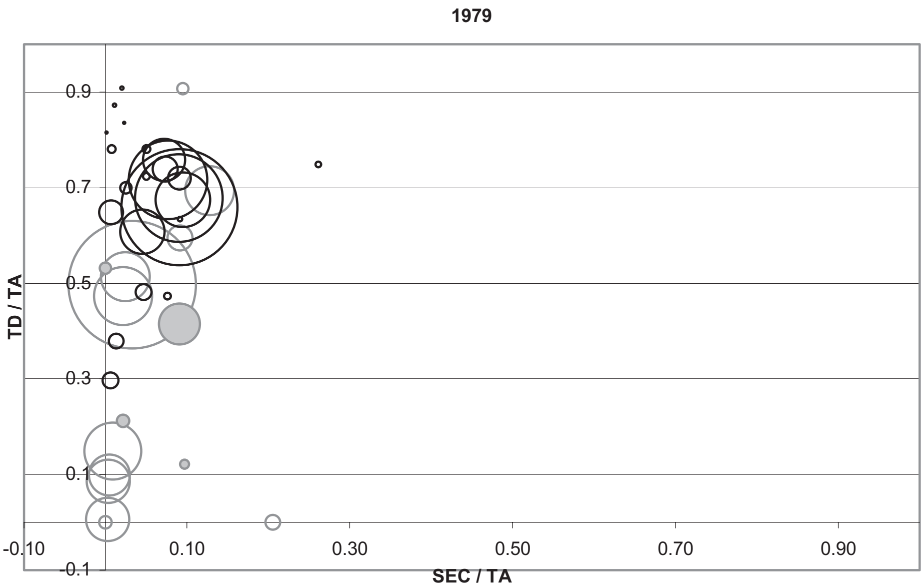

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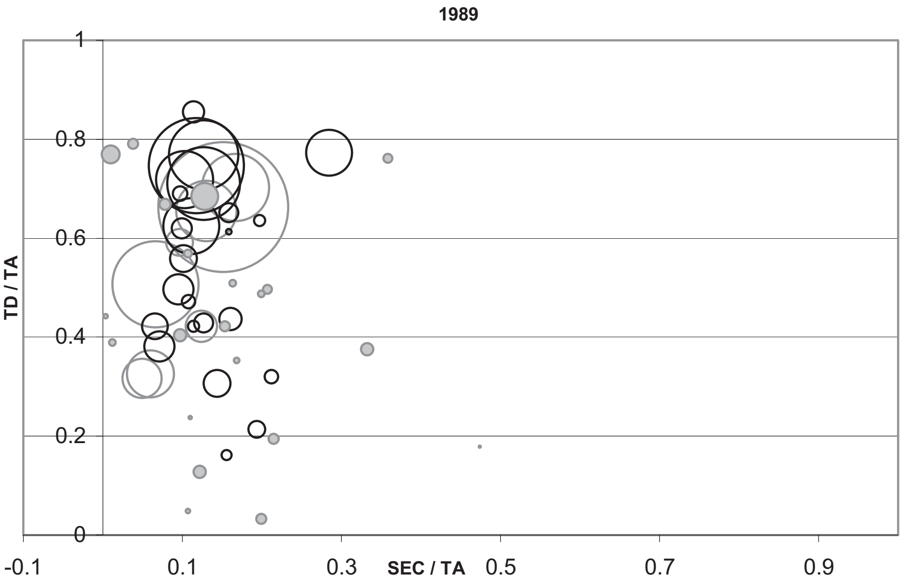
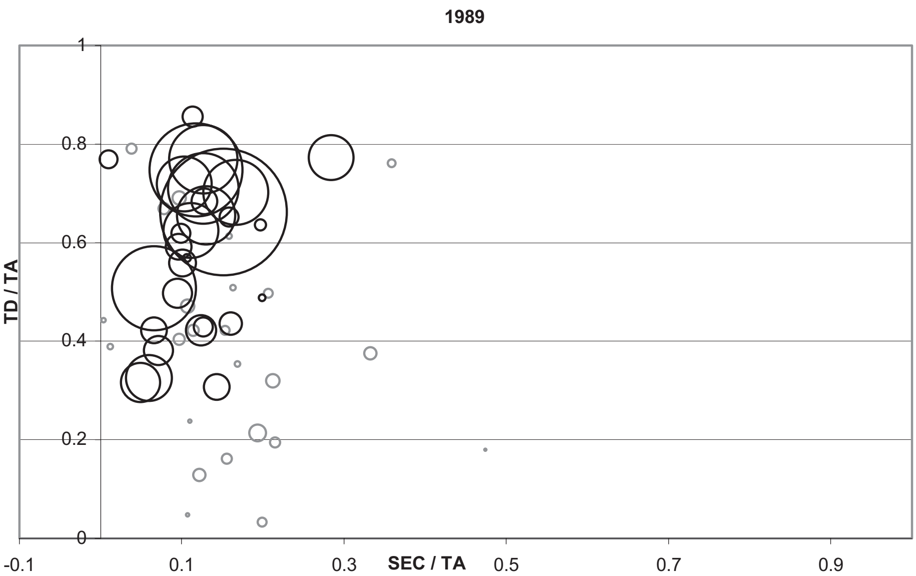
SECURITIES AND DEPOSITS





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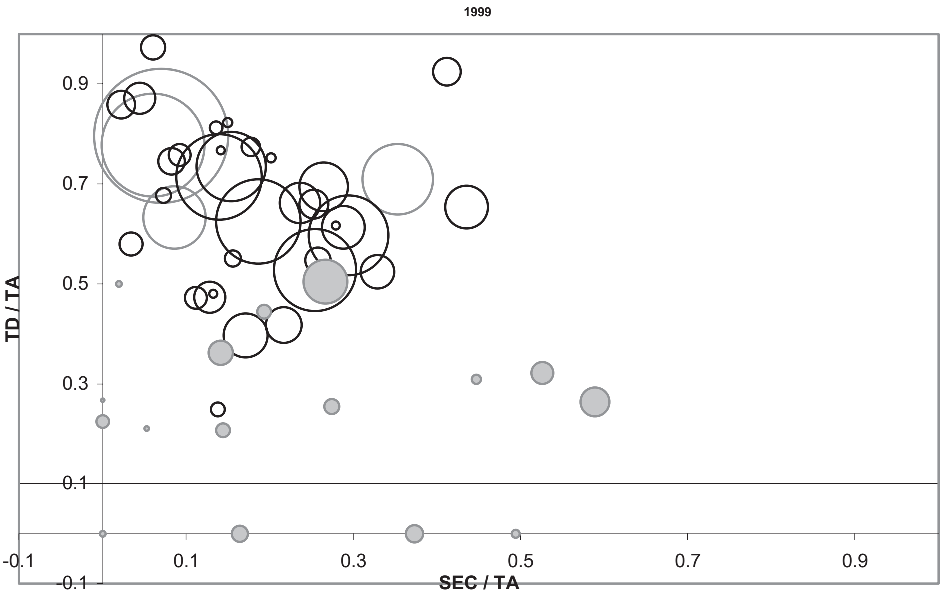

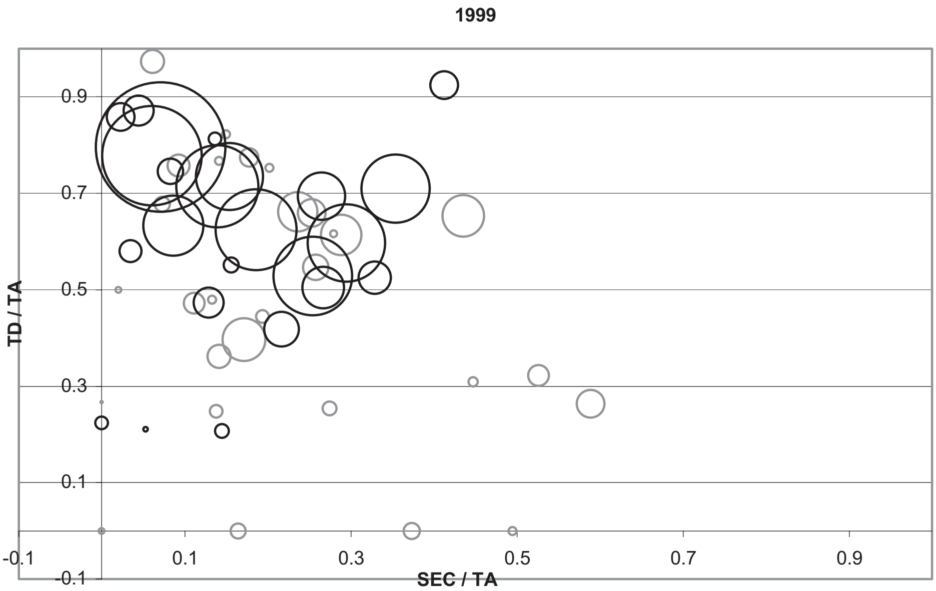

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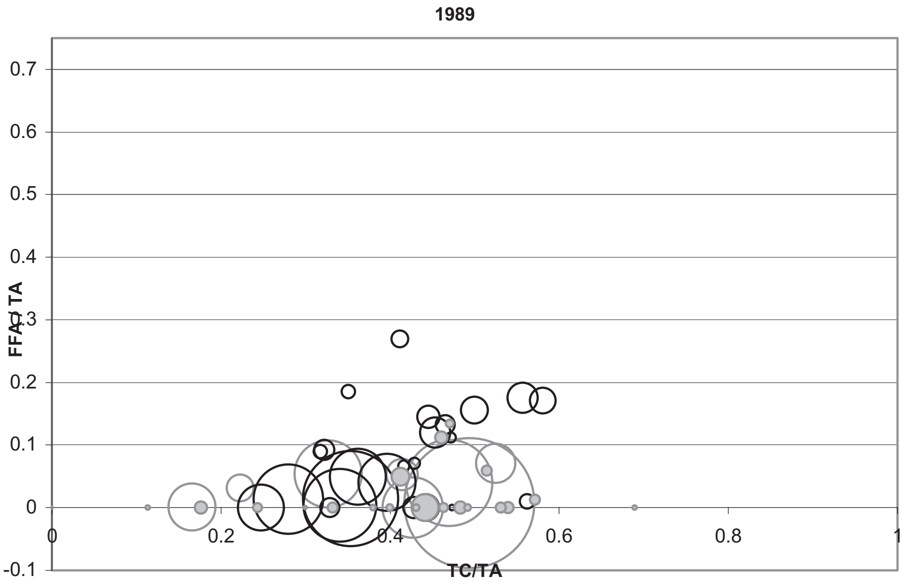

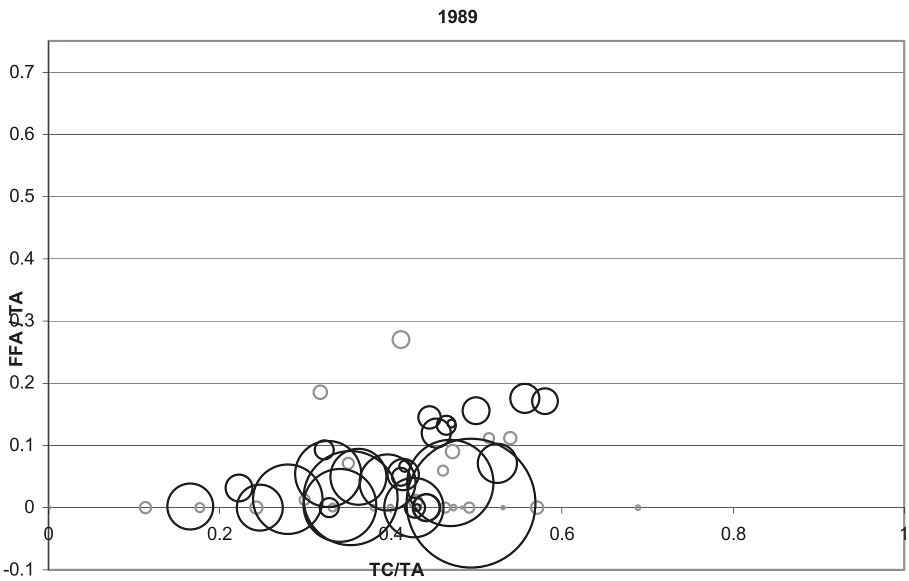

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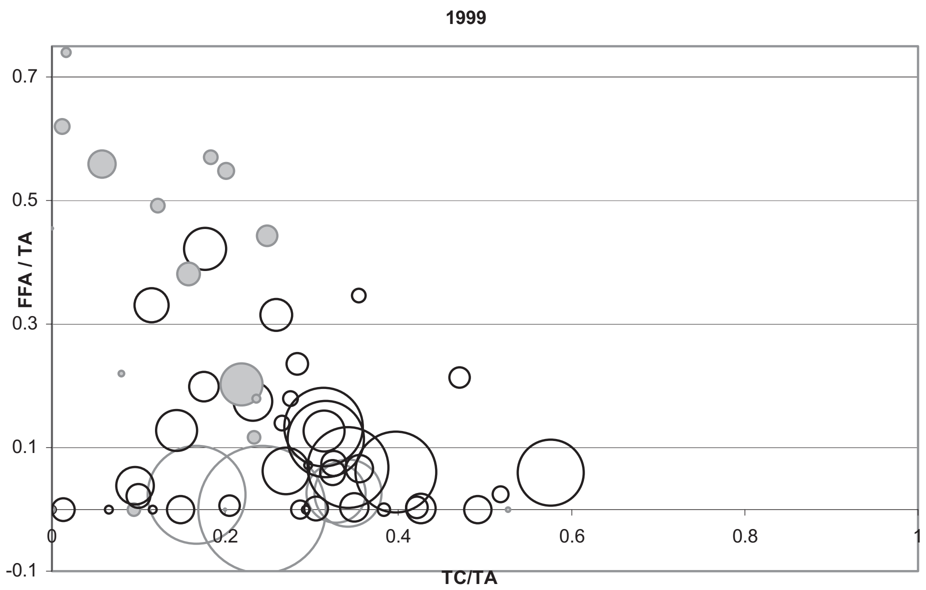

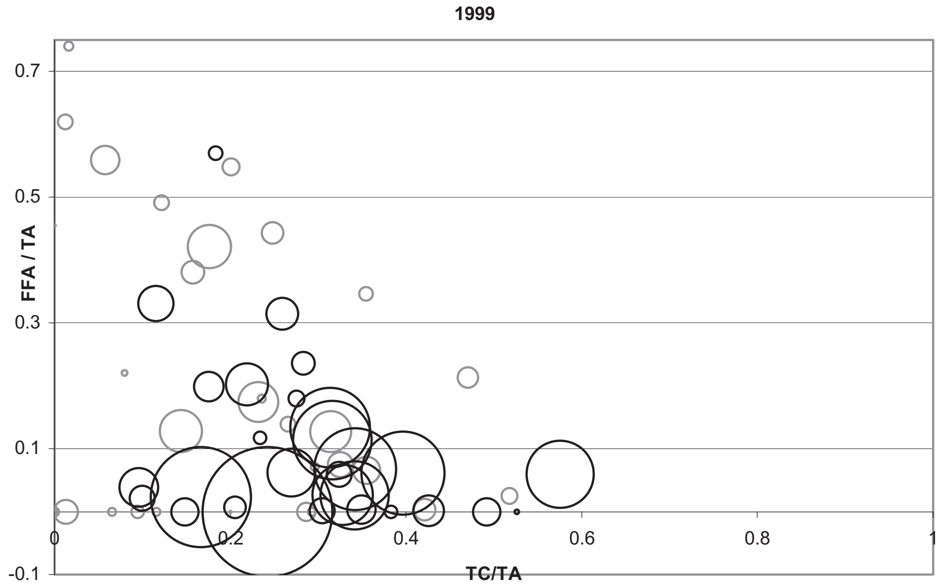

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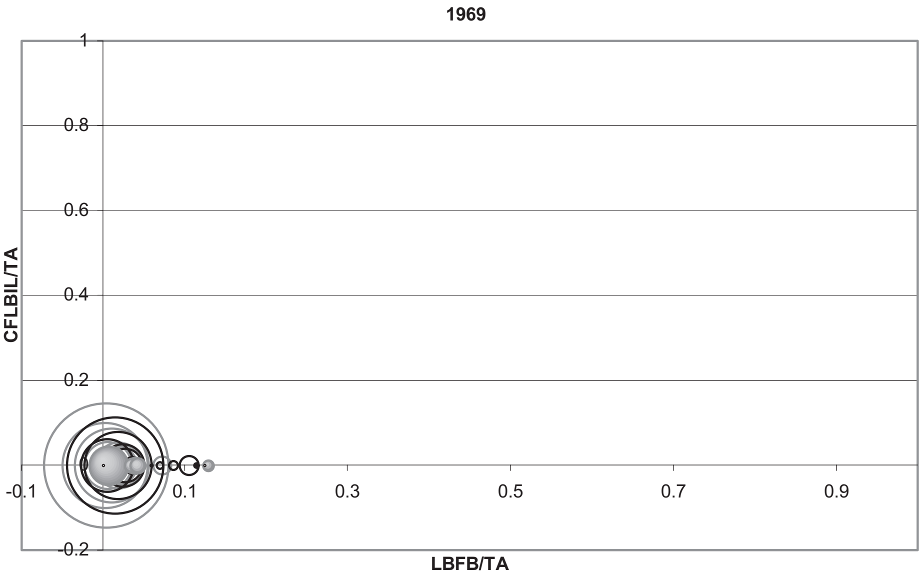
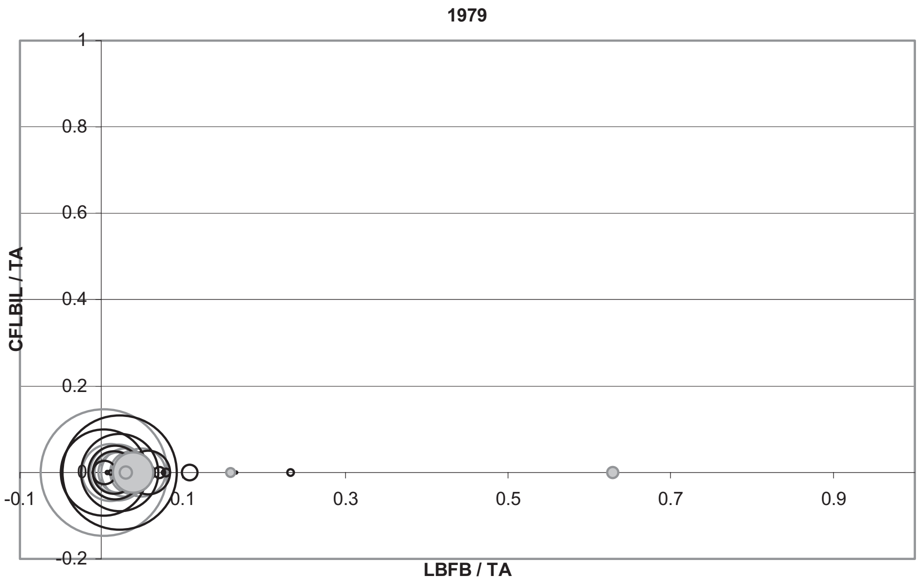
LOANS TO BANKS vs LOANS FROM BANKS





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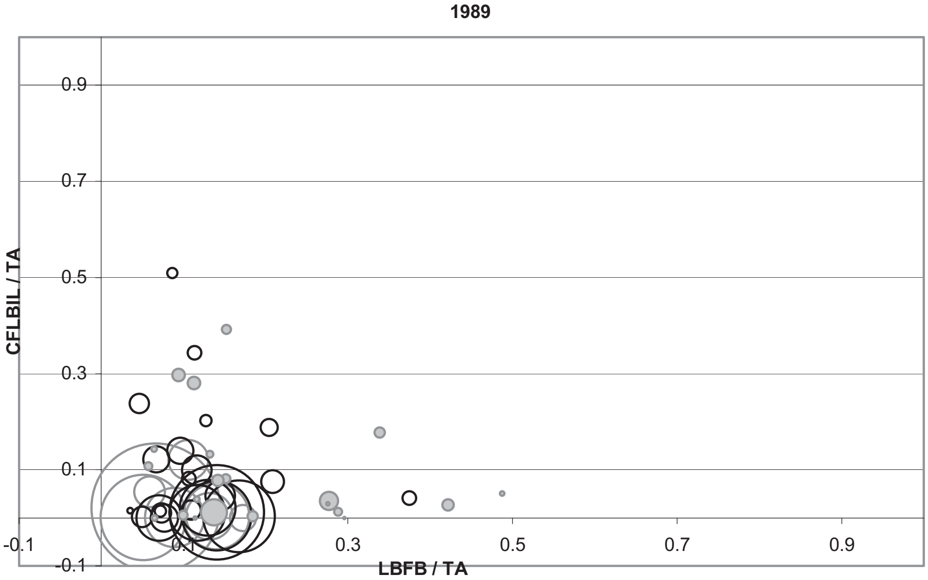

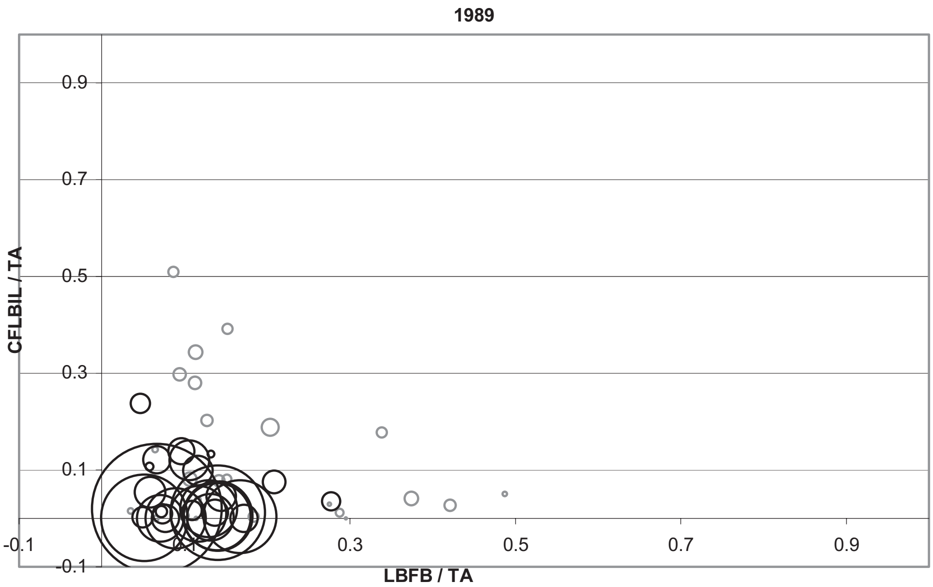

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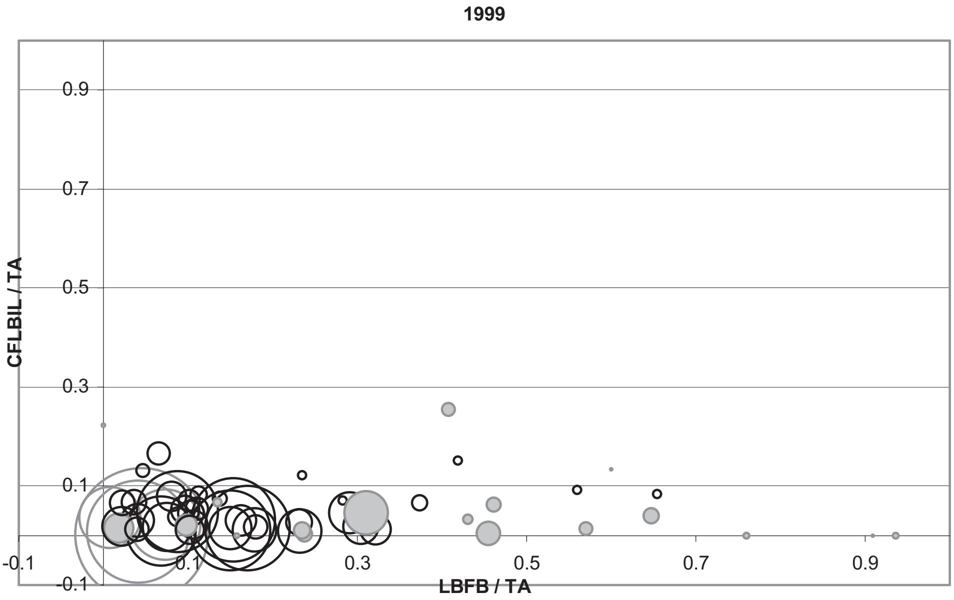

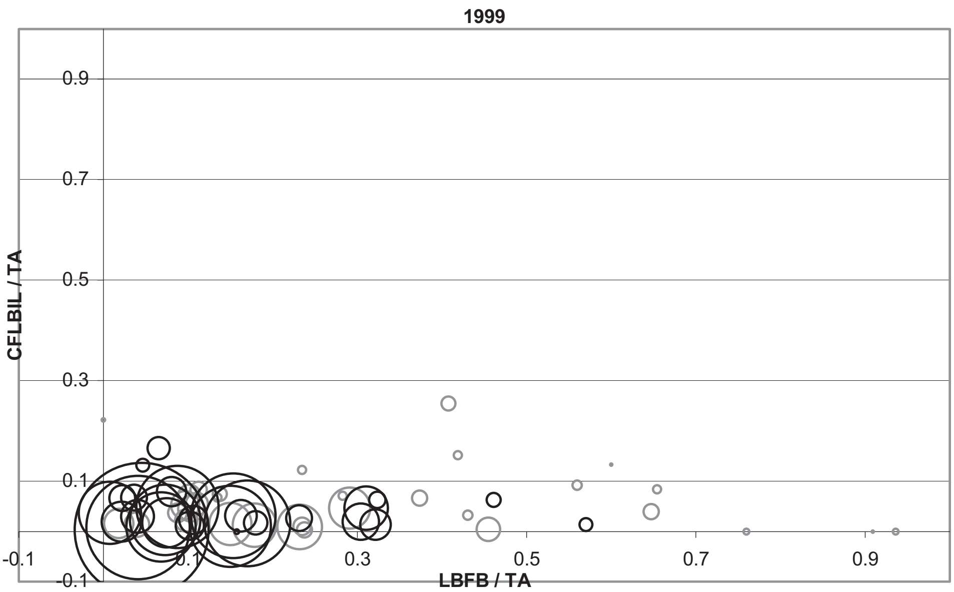

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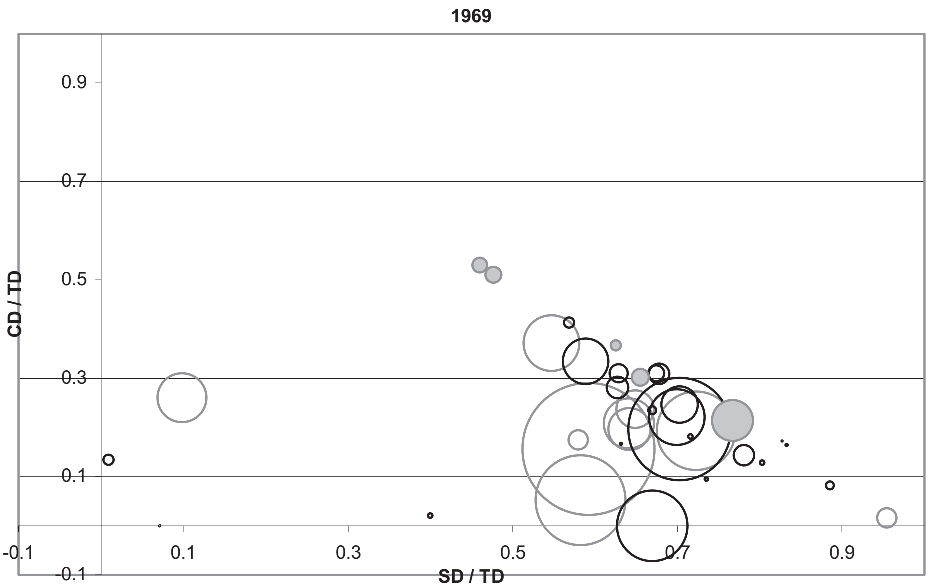
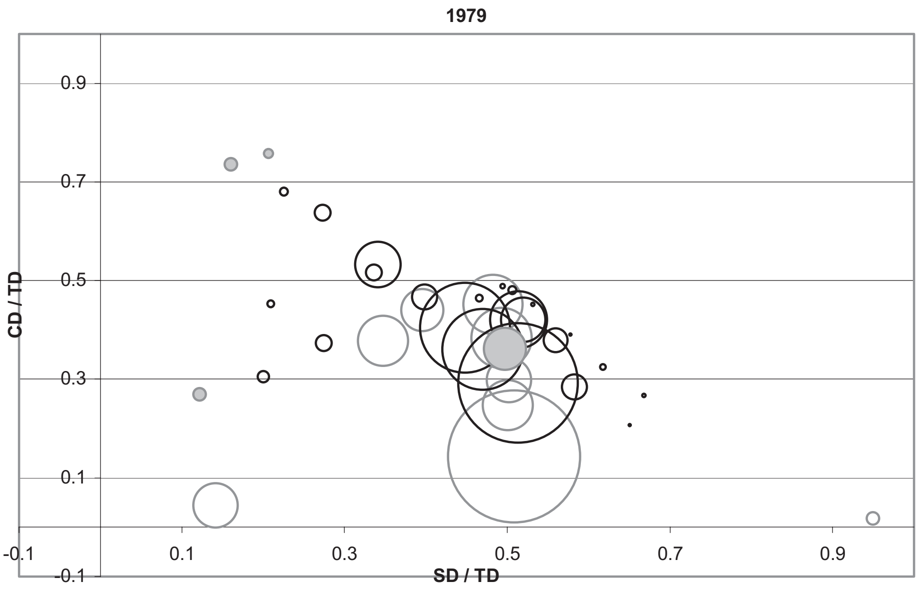
SAVINGS DEPOSITS VS COMMERCIAL DEPOSITS





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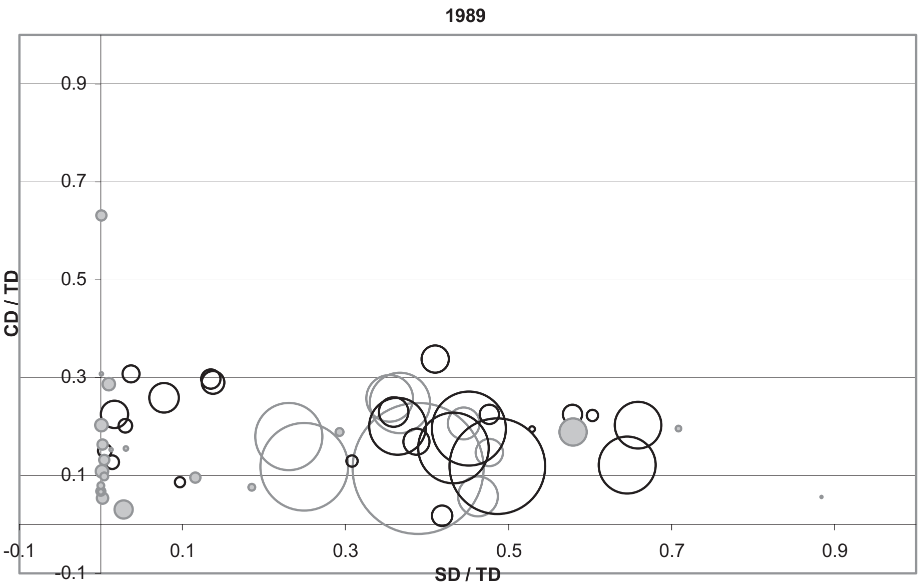

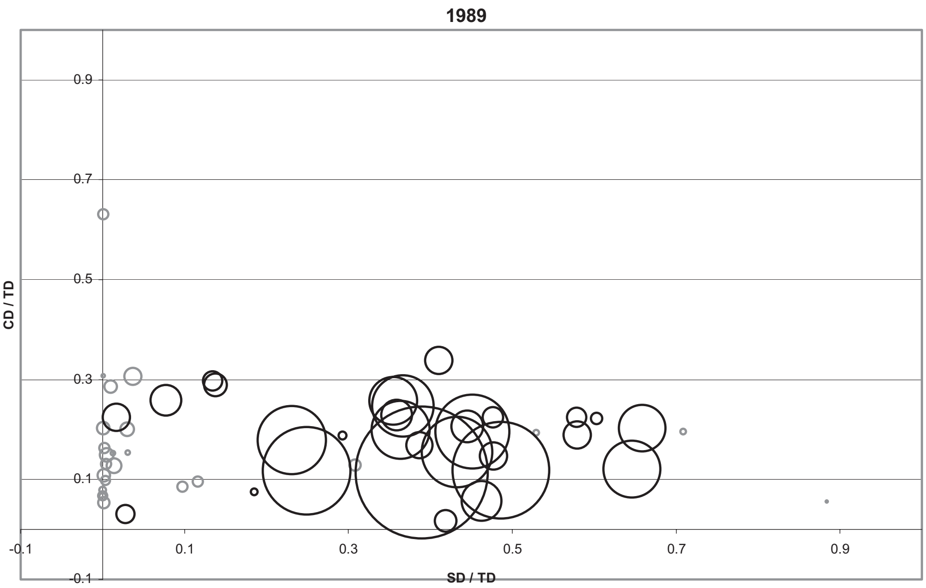

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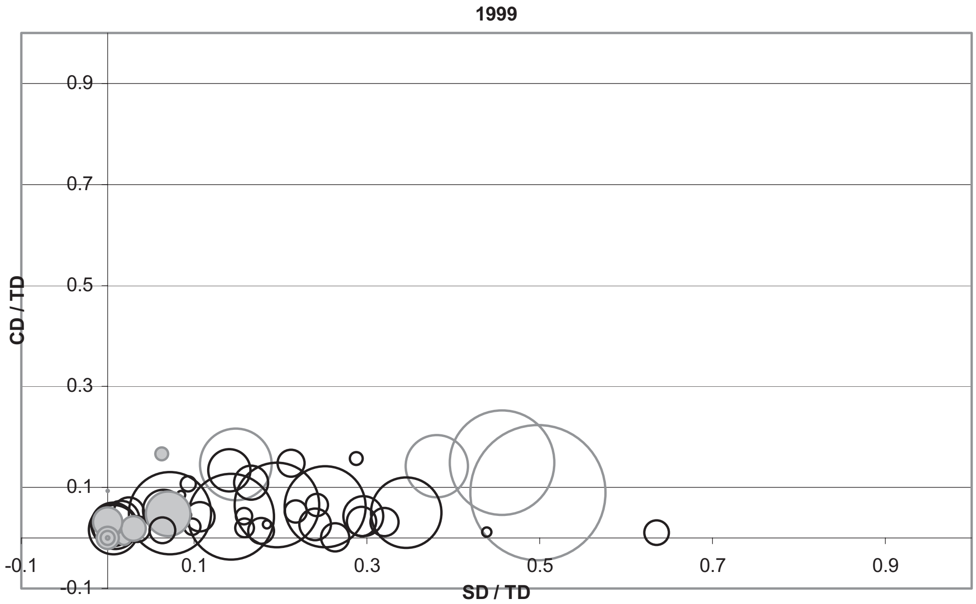

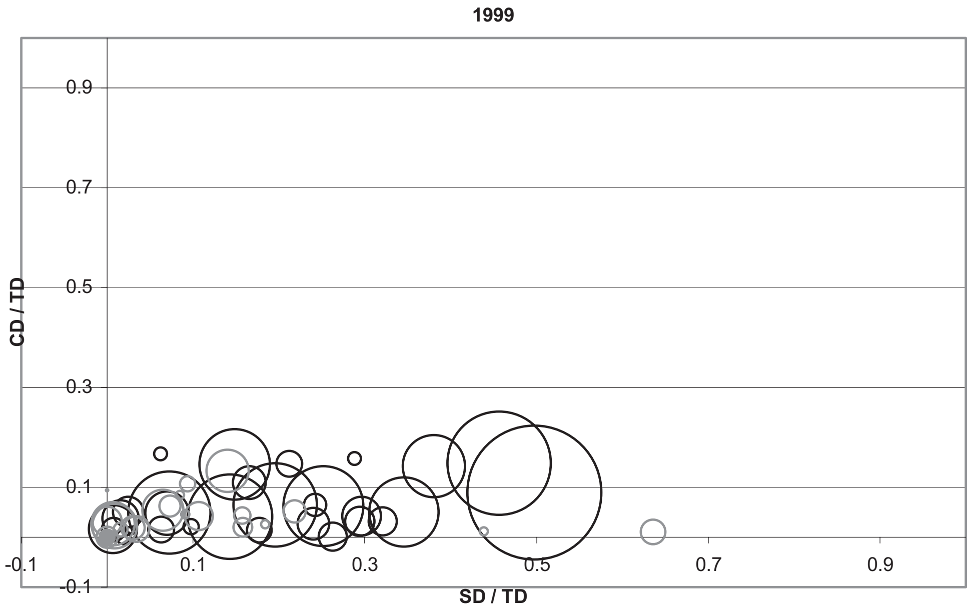

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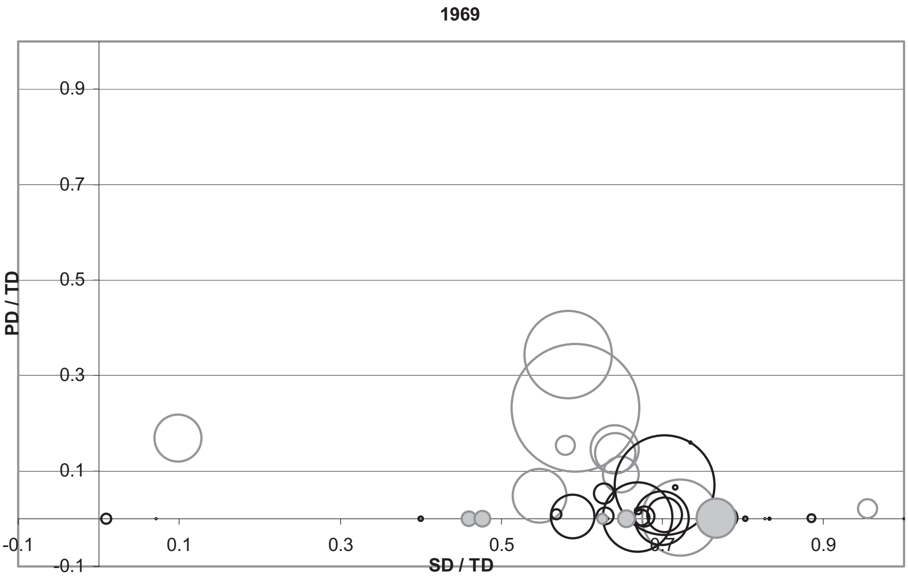

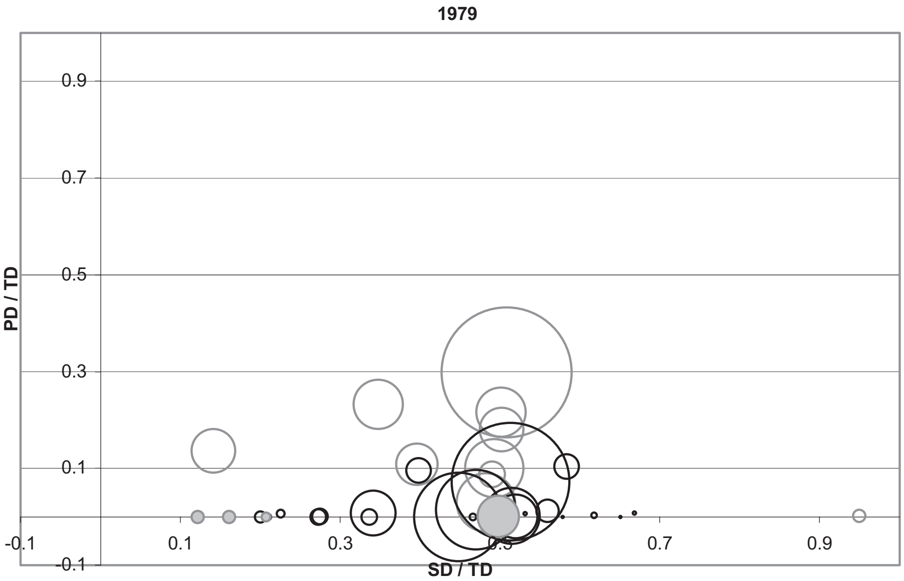

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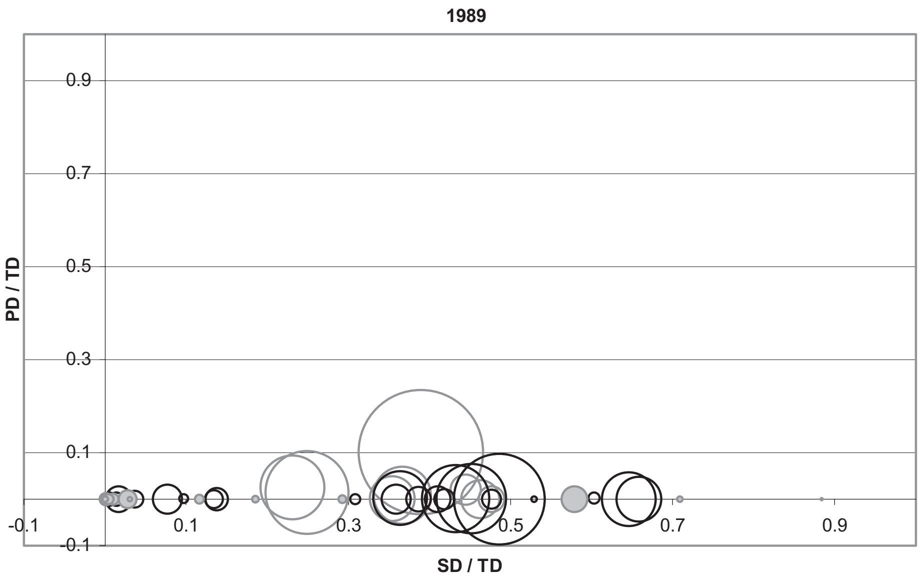

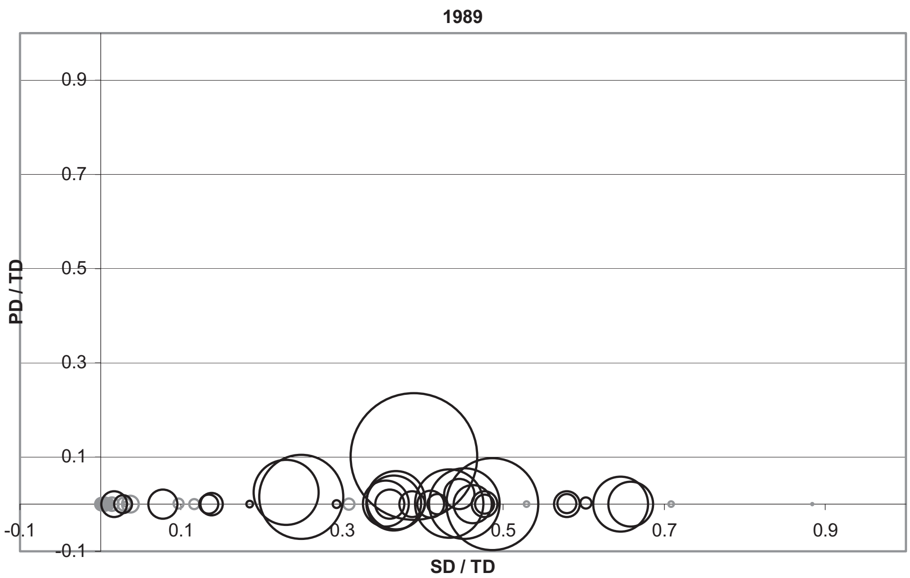

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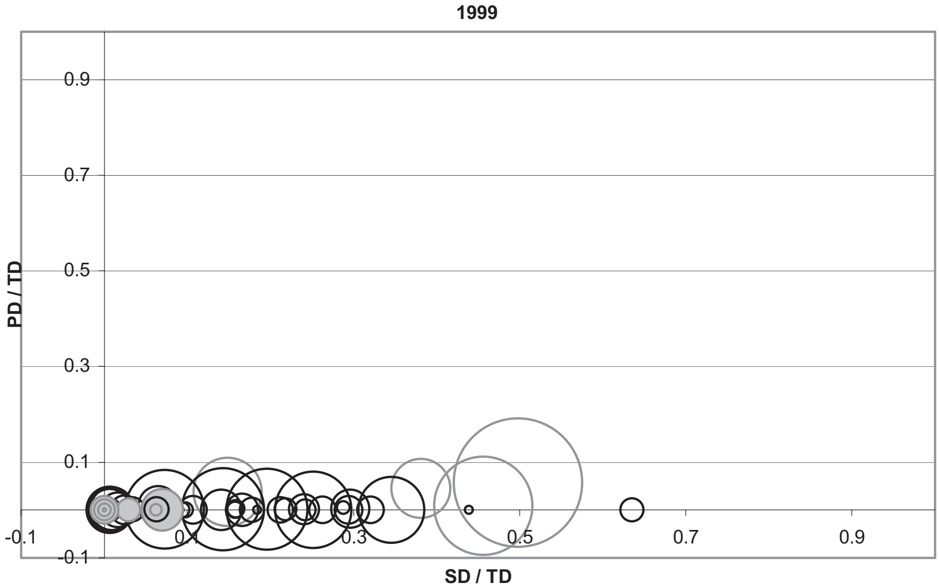

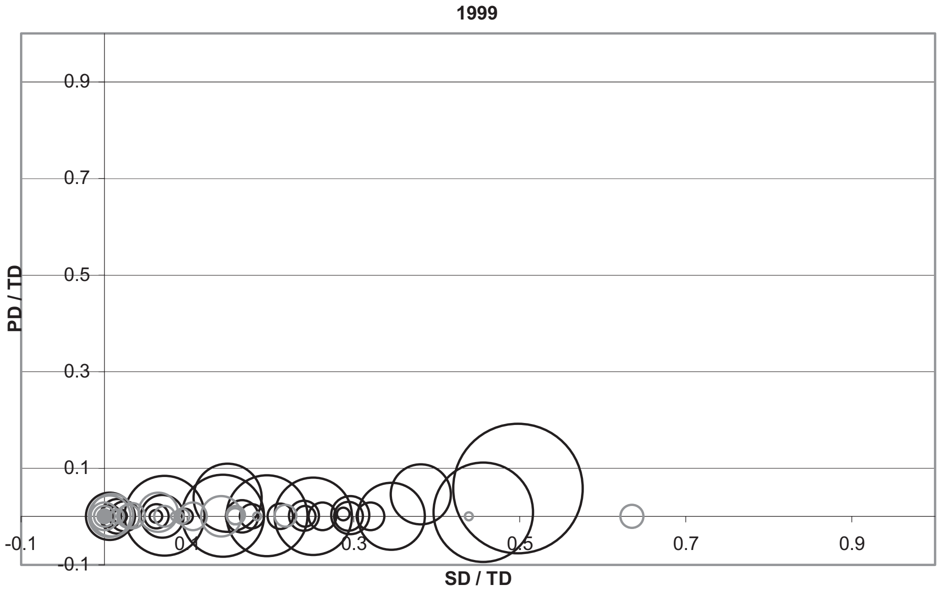

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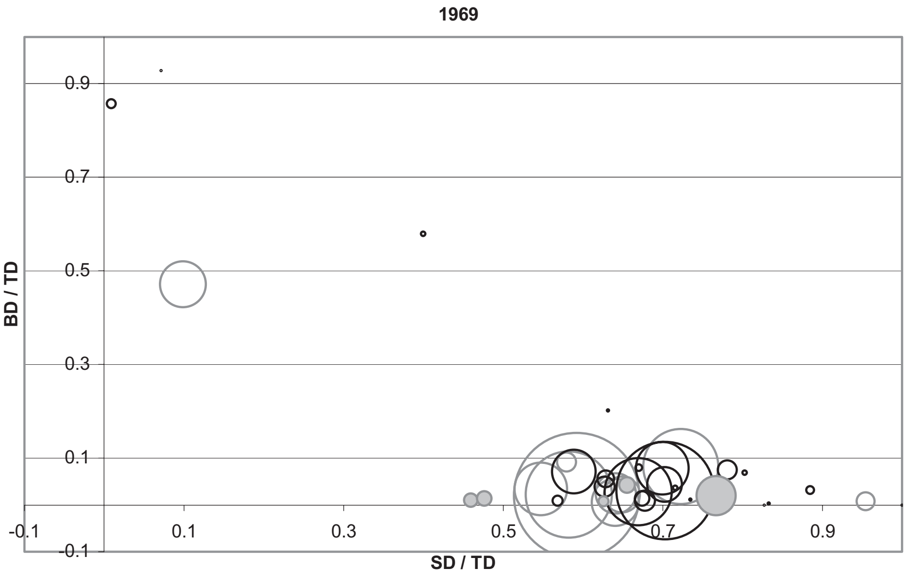

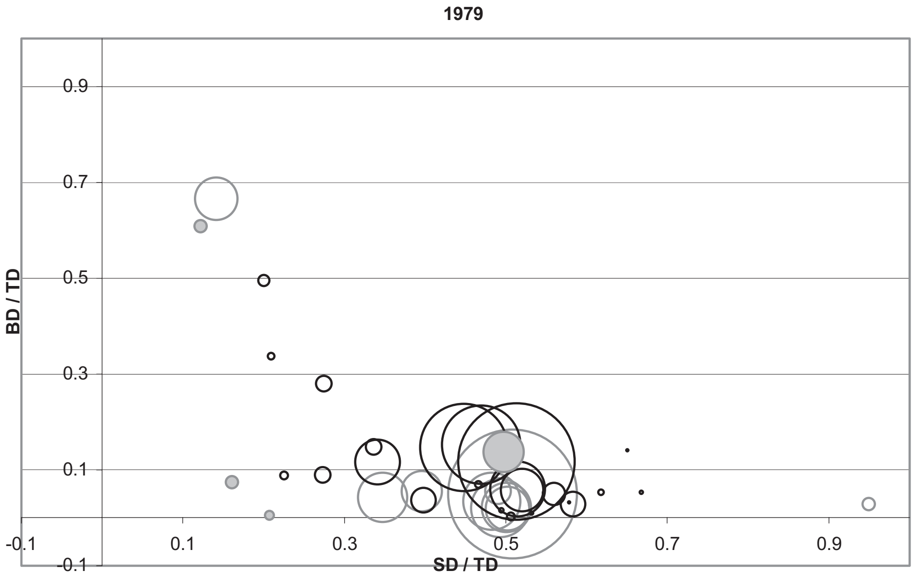

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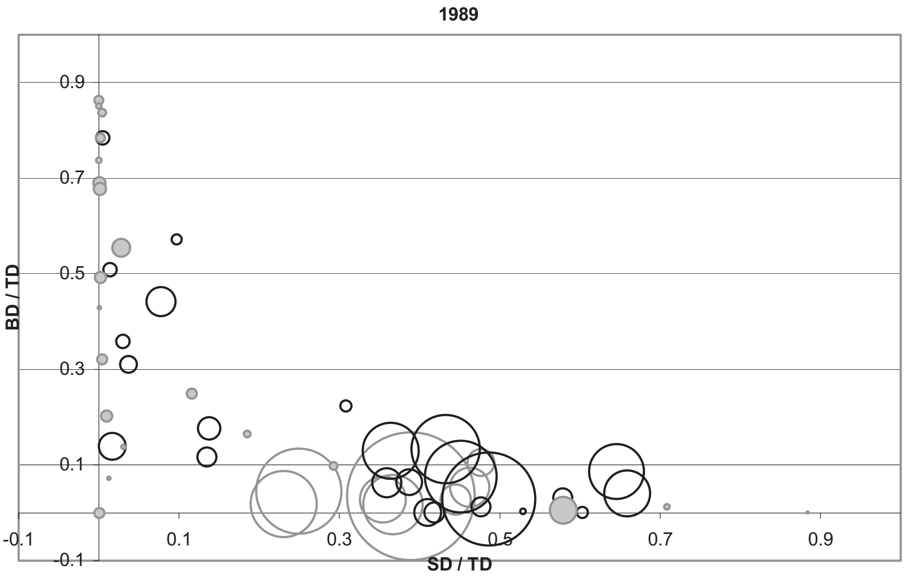

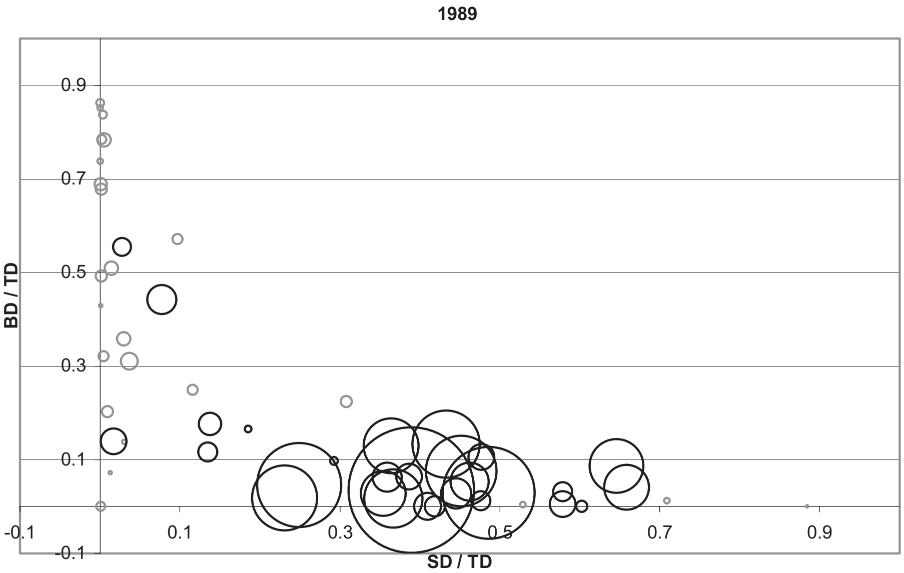

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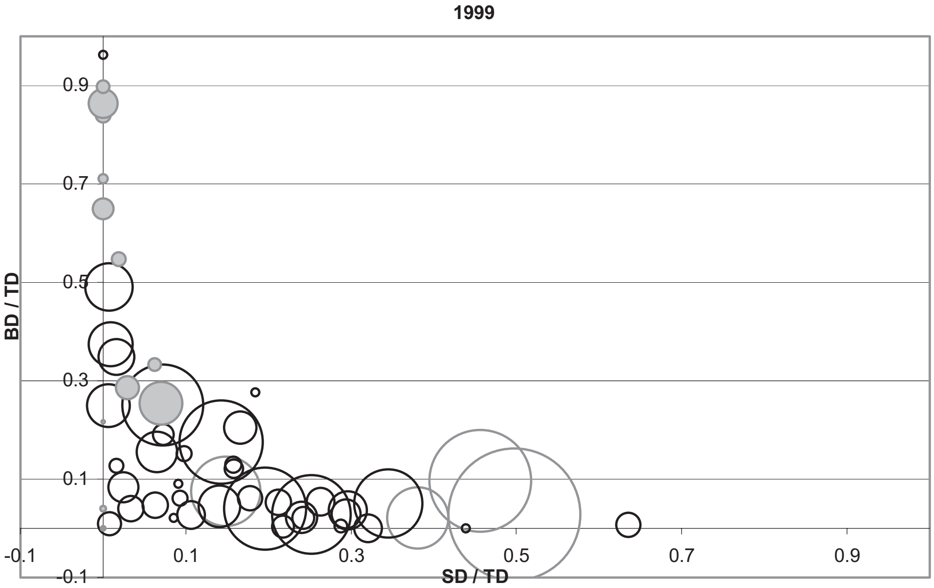

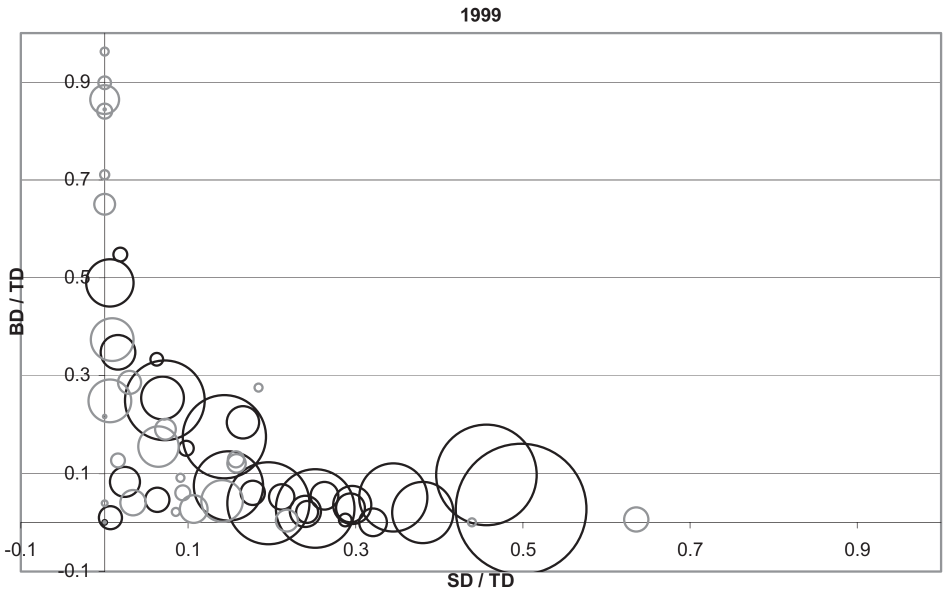

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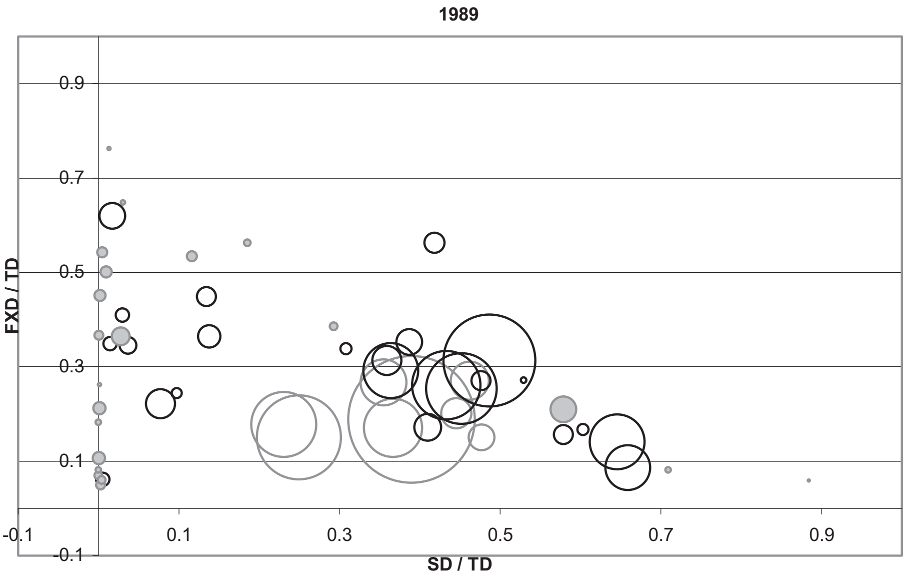

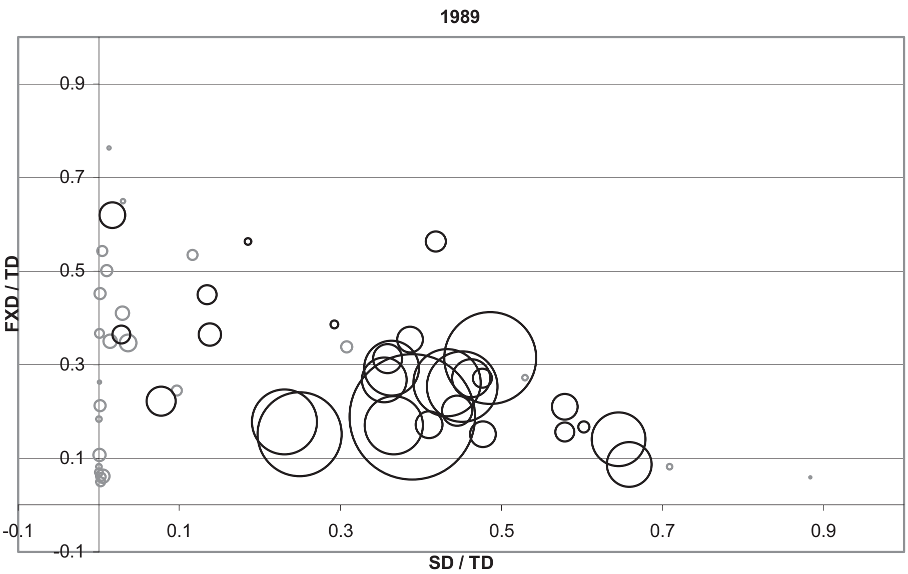

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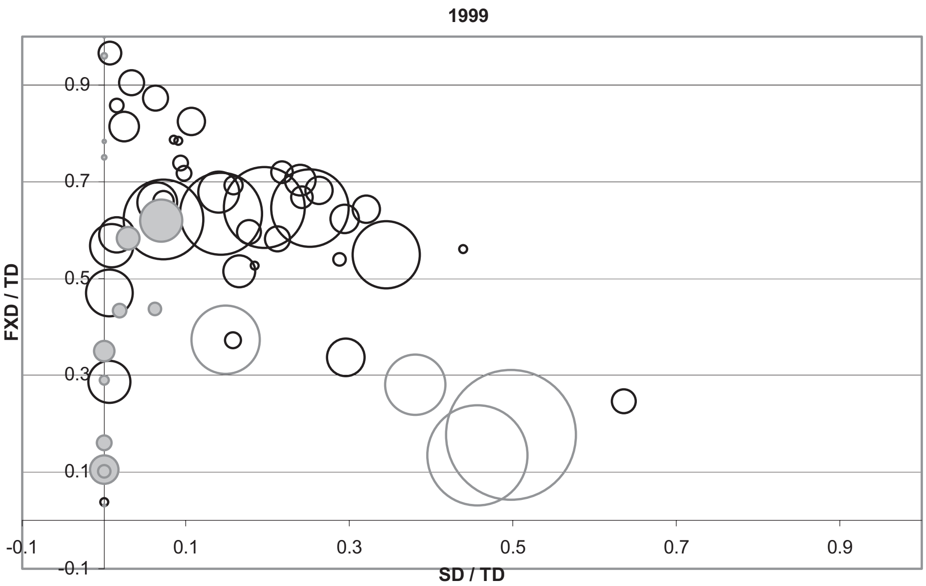

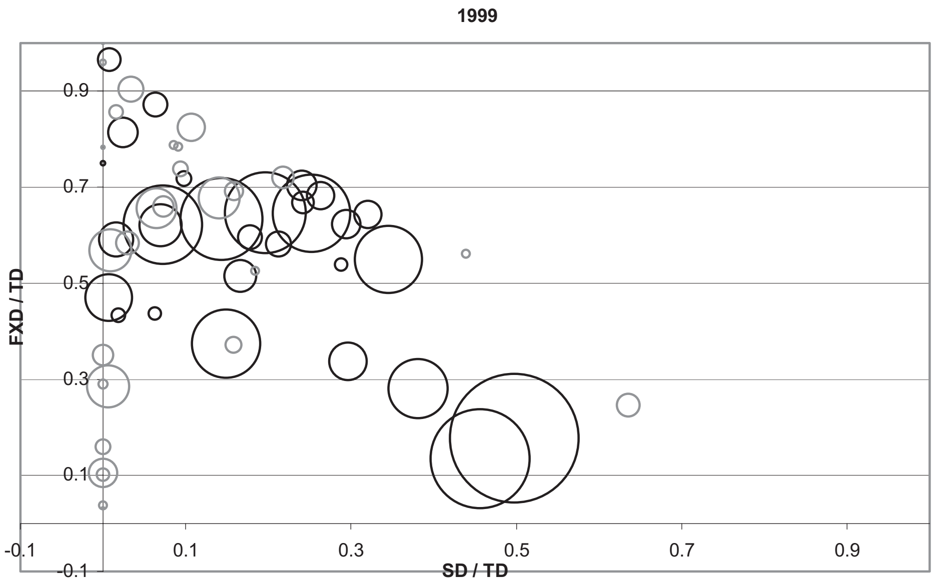

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APPENDIX 5

A) ASSETS, REVENUES, PROFITS, BRANCH NETWORK AND PERSONNEL

MARKET SHARES						
		Assets	Revenues	Profits	Branch	Personnel
1969	YKB	7.14	6.68	7.99	9.63	8.33
	GB	1.88	1.75	1.10	4.37	4.15
1979	YKB	8.42	7.12	-	10.05	8.59
	GB	2.50	2.19	0.01	4.42	3.22
1989	YKB	6.46	6.19	7.08	9.09	7.05
	GB	4.24	4.06	3.76	4.51	3.43
1999	YKB	7.13	3.98	10	5.63	5.99
	GB	6.60	5.02	9	3.05	3.17

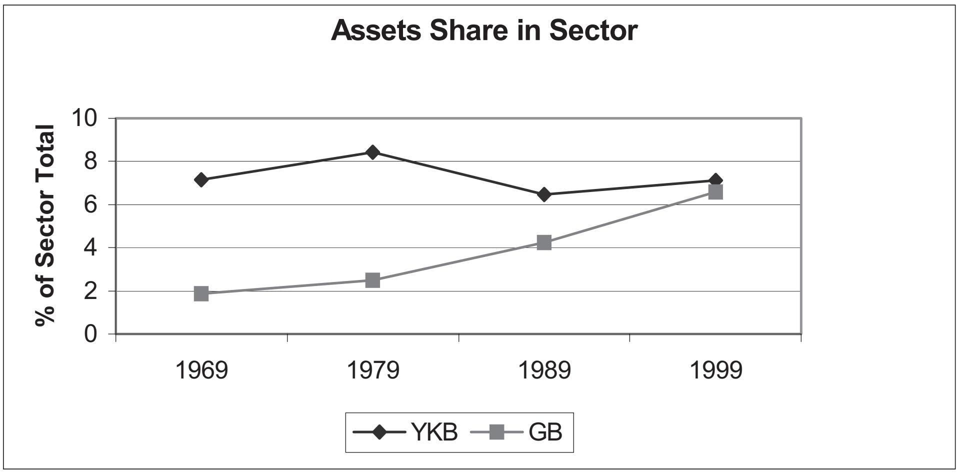
Note: Numbers in above table are percentages.

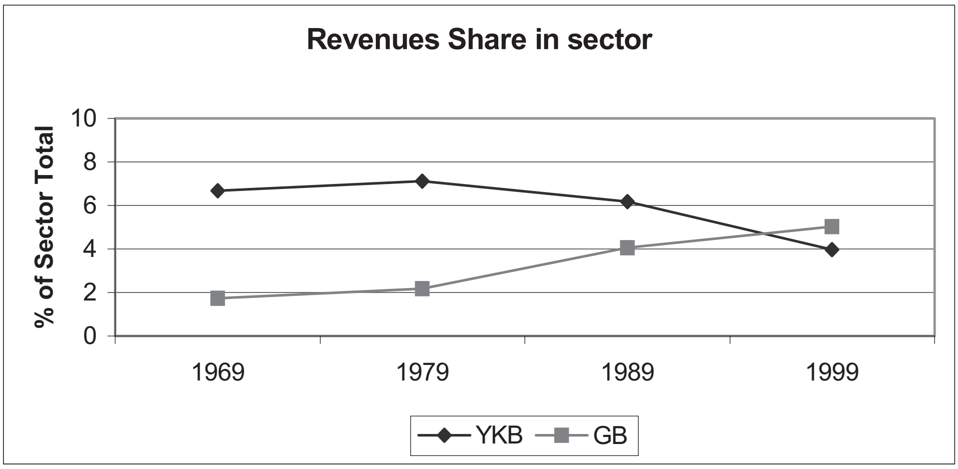
NUMBER OF BRANCHES				
	1969	1979	1989	1999
YKB	282	577	598	431
GB	128	254	297	234

NUMBER OF PERSONNEL				
	1969	1979	1989	1999
YKB	5009	10467	10656	10089
GB	2498	3921	5179	5350

INTERNATIONAL OFFICES (FOREIGN BRANCHES – SUBSIDIARIES - LIASON OFFICES)				
	1969	1979	1989	1999
YKB	-	-	1-0-11	1-5-6
GB	-	-	1-0-9	3-2-4

B) TRENDS IN ASSETS AND REVENUES

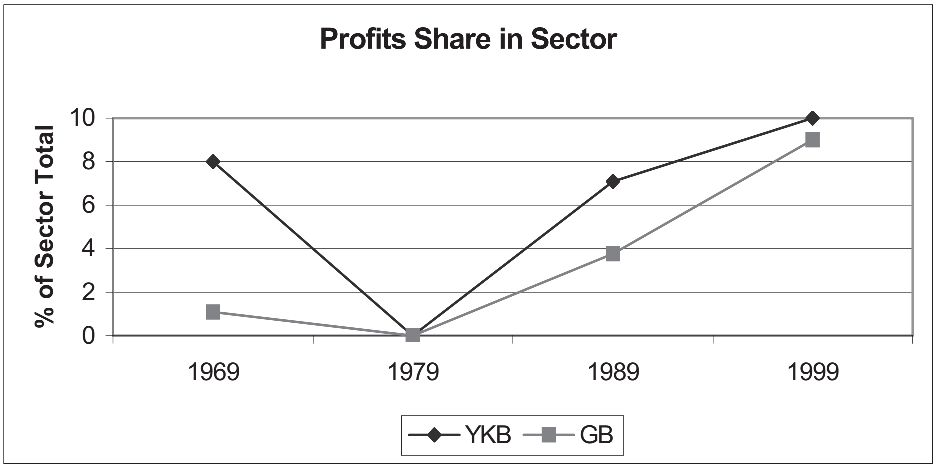




It is clear that a substantial difference existed between asset and revenue sizes of YKB and GB in the pre-1980s period, YKB taking up a much larger share of the sector total than GB. By the end of the 1980s these gaps had reduced considerably. Yet, there still existed a sizeable difference, with YKB still accounting for a larger share.

What we observe at the end of the 1990s is a significantly different picture. Firstly, GB closes the gap with YKB in asset size terms by continuing to substantially expand its share in the sector, while YKB maintains its own share. Secondly, despite the less substantial growth in its share of revenues in comparison with the growth of in its share in assets, GB surpasses YKB by a small margin in terms of share in sector revenues. The major reason for that is the decline of YKB's share in sector revenues.

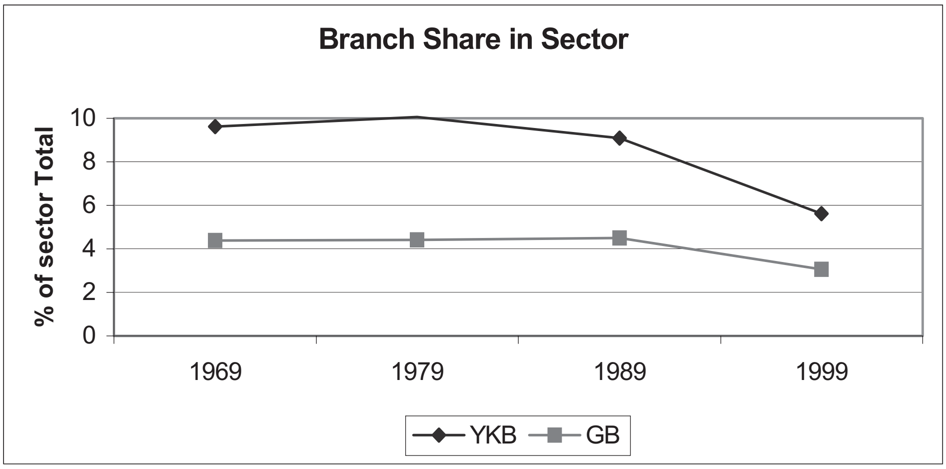
C) TRENDS IN PROFITS

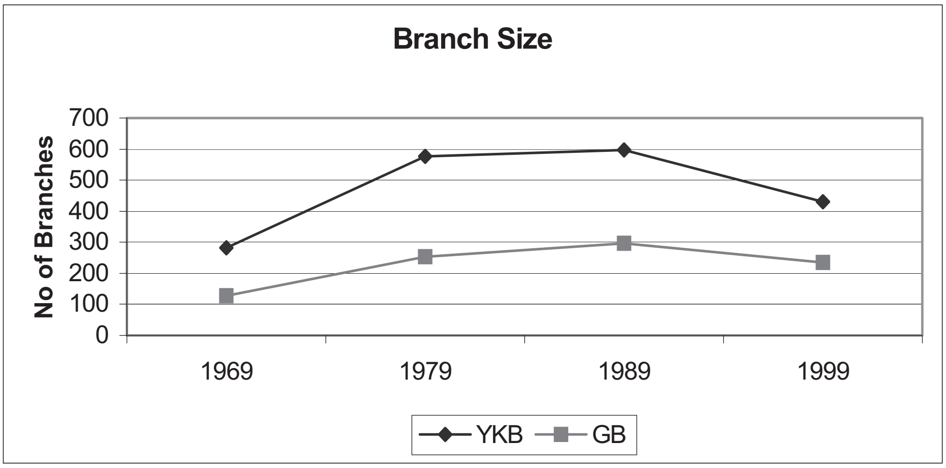


If we disregard the extraordinary situation at the end of the 1970s, the overall pattern in market shares in profits look similar to the above described patterns in market shares in assets and revenues. The substantial difference between YKB and GB at the end of the 1960s gives way to a moderate yet clear difference at the end of the 1980s, and eventually to a very minor difference at the end of the 1990s. But YKB in each case accounts for a larger share.

Both banks display a much better profit performance in comparison with revenue performance and the difference is much larger in YKB's case. Since profits are also a function of cost structure, it is appropriate to infer that YKB's prevailing superiority in that respect is possibly related with lower costs.

D) TRENDS IN BRANCH NETWORK AND PERSONNEL

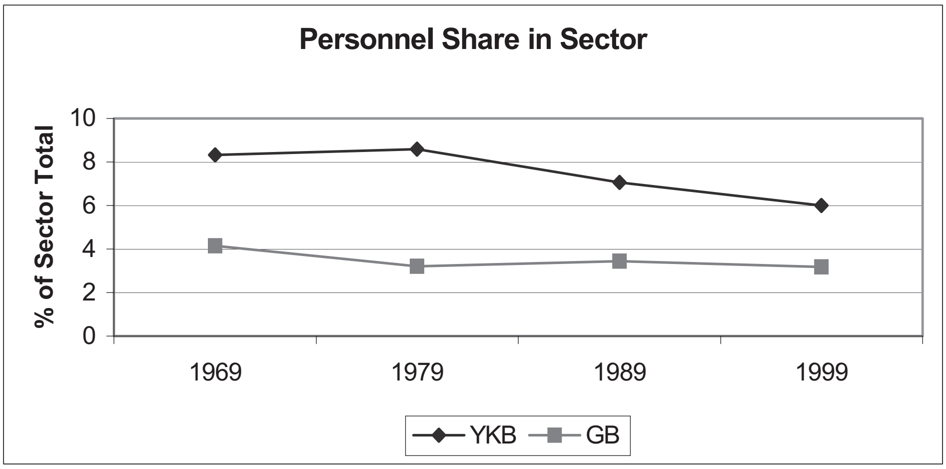


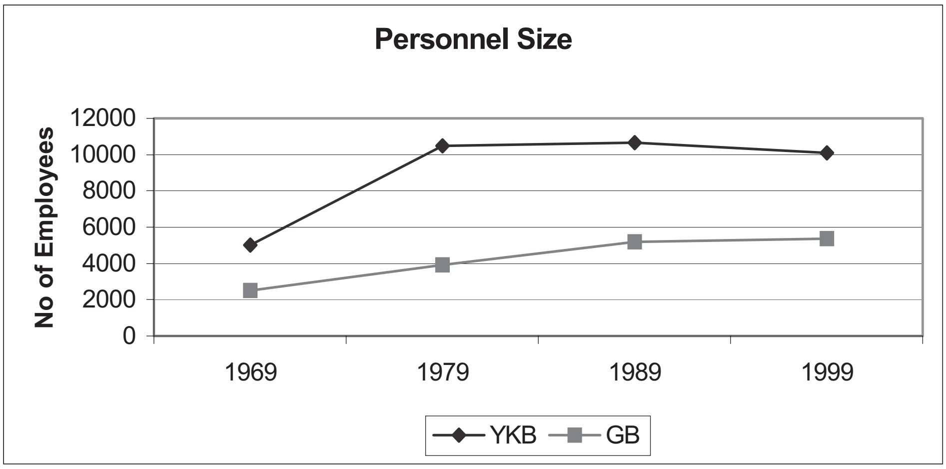


A clear difference between the banks is evident in terms of branch size, and this applies to absolute size as well as to size relative to the sector. We observe a divergence between YKB and GB in the 1970s, as YKB's branch network grows much more than GB's network does, although their respective growth rates are similar (this is due to initial differences in size). The same difference prevails in the 1980s, as each bank undergoes a minimal network expansion. Finally, we observe a convergence in the 1990s, resulting from the substantial contraction in YKB's case compared with the moderate contraction in the case of GB (this time, the rates of contraction are more similar due to initial differences in size).

It is possible to say both banks always had a sufficiently large branch network to operate as a retail bank. However, it is also evident that YKB was equipped with a more retail oriented organisational format than GB. This fits in well with observations concerning strategic and operational styles, which indicate a stronger commercial retail banking characteristics in the case of YKB and a less clear banking template in the case of GB.

A more or less similar pattern is evident as far as personnel sizes are concerned. An exception is the apparent stability observed in personnel size over the 1990s. The substantial difference between these banks prevails during that time.

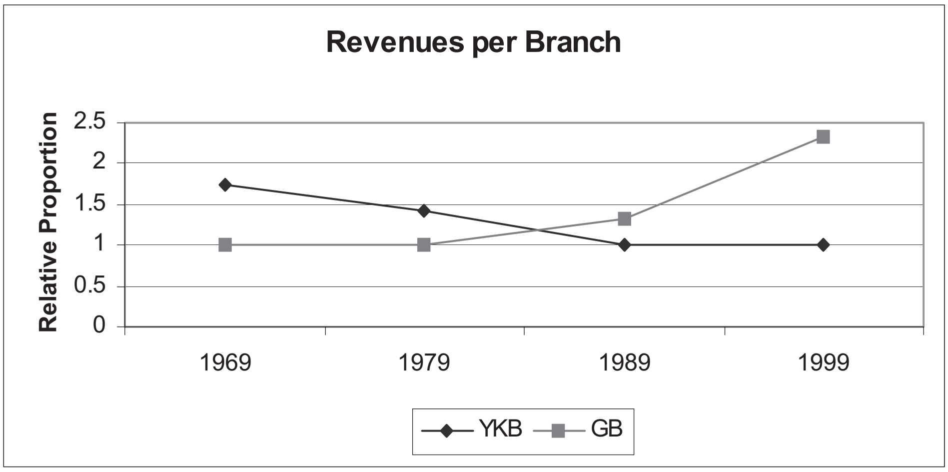


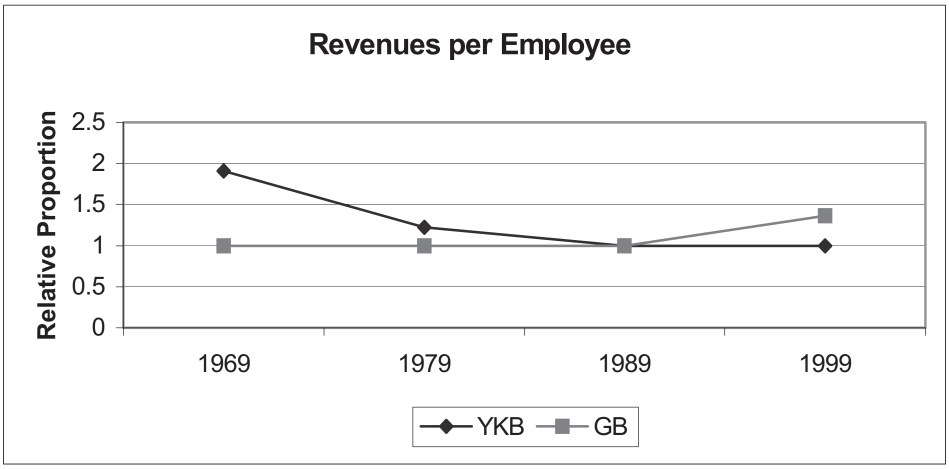


Disregarding the exception in the 1990s, the roughly similar patterns observed in branch network and personnel sizes point at a close relationship between these two aspects of organisational size. This is quite normal, given that the majority of a bank's employees would normally work at a branch. Thus, as long as a bank does not significantly change the working conditions and personnel intensity of a branch, it is normal to observe branch network and personnel size grow and contract together. We observe that such was not the case in the 1990s as far as YKB and GB are concerned. Their personnel size remains roughly at the same level while their branch network contracted. There could be at least two explanations for this. One explanation is that they might have started to operate with a larger number of personnel per branch. This is not very likely to be the case, given the changes in technological applications and the extent of automation taking place in banking operations. Another and more likely explanation involves exactly these very changes in the work context. Because automation would normally lead to less labour intensive work conditions in branches, and therefore to an even smaller number of personnel per branch, the stability in personnel size, coupled with a decreasing size of branch network, can imply that these two banks were making use of excess personnel in their operations centre.

E) TRENDS IN REVENUES PER BRANCH AND PER EMPLOYEE

Besides being an indicator of efficiency, these are also useful for reflecting a bank's retail or wholesale orientation. It should however be stressed that the scores indicated in the relevant figures were generated by using one of the banks as a reference point. Thus, these graphs depict only how the banks' stance relative to one another changed and not the specific individual changes.





We observe that YKB and GB at all times exhibit a very similar performance in terms of revenues per branch. Although YKB's performance in the pre-1980s period was slightly better than GB's performance, GB exceeds YKB's level of performance in the post-1980s period, but in each case, the differences are quite small. As mentioned above, this not only tells something about differences and similarities in terms of efficiency, but might also have implications in terms of retail and wholesale approach. It might therefore be worthwhile to take a second look at the patterns visible in market shares in revenues and branch network.

The slight divergence between GB and YKB in the 1990s appears to be related with a slight improvement in GB's case. This is due to a simultaneous expansion of market share in revenues and a contraction in the share of branches (see the earlier discussions). The co-existence of these two developments can also be considered an important indicator of a wholesale approach in GB's case. In the case of YKB, we observe that market share in revenues as well as market share in branches contract to roughly the same degree, with virtually no effect on revenues per branch. It is difficult to draw a straightforward conclusion from these joint observations. Although a contracting branch network could hint at a change away from retail orientation, this does not have to be the case. Because a transformation in sales channels, more specifically a switch from branches to non-branch outlets such as automatic teller machines and the internet would enable a bank to do retail banking with a smaller branch network. This might very well be the case here and the same possibility also applies to GB. However, in the light of the earlier discussed funds and revenues related indicators we can be more confident about the inference on GB.

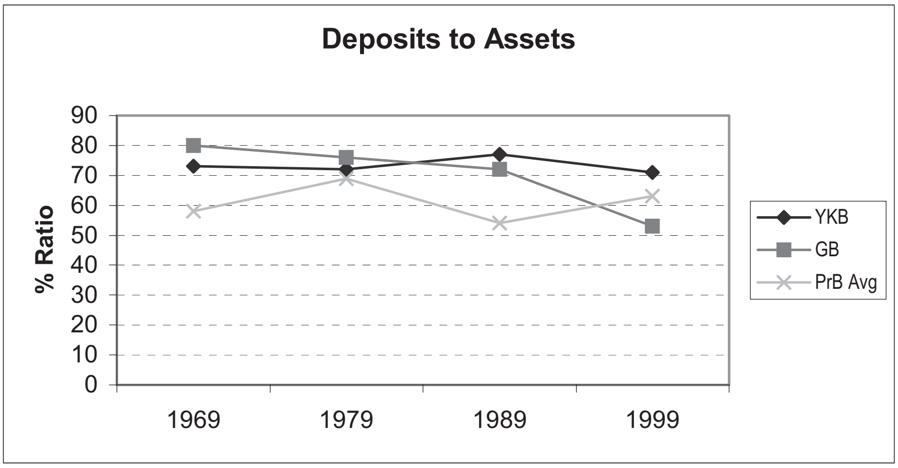
Regarding revenues per employee, we observe that the clear superiority of YKB over GB in the 1970s disappeared by the end of the 1980 and eventually transformed into a clear inferiority by the end of the 1990s.

The rises in GB's case in the 1990s could be an indicator of increasing efficiency as well as a more wholesale oriented banking style. In the light of the earlier discussed observations on funds and revenues related variables, it may be stated a more wholesale oriented banking style appears to apply to GB's case.

However, even such a joint consideration of different indicators does not enable us to make a conclusive inference. This is because vertical disintegration of certain banking activities such as technology management and automation, which actually took place in each bank, may interfere with and complicate the picture. With this latter consideration in mind, it might not be too wrong to state that the increase in revenues per employee in GB's case might also serve as an indicator of increasing efficiency. This is because the bank expanded its market share of revenues more than it increased its share of personnel. The relative stability in revenues per employee in YKB's case may however not be an indicator of maintenance of efficiency. In contrary, the larger drop in this bank's market share of revenues in comparison with the drop in its share of personnel apparently implies a drop in efficiency. Whether the reduction in personnel is related with vertical disintegration or not, would not change this inference, because the efficiency indicator used here considers revenues as opposed to profits.

APPENDIX 6

A) ANALYSIS OF TRENDS IN FUNDS GENERATION COMPONENTS



<u>The 1970s and 1980s</u>:

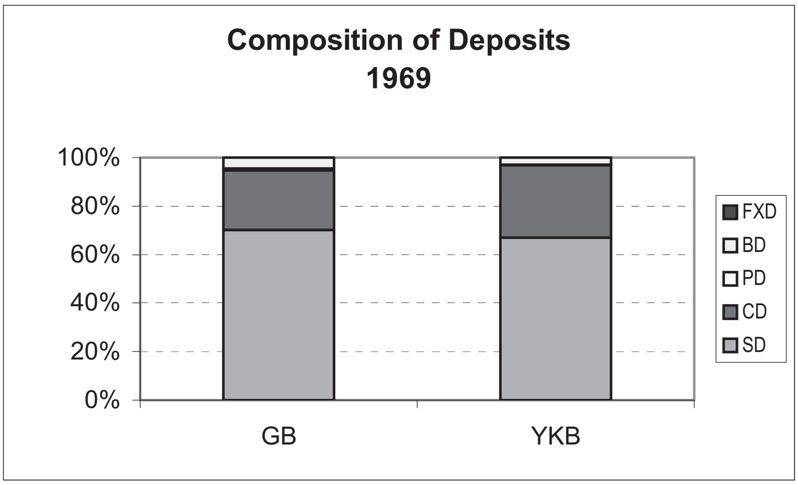
As the chart indicates, YKB and GB's banking styles were quite similar until the end of the 1980s. Deposits were the predominant source of funds for both banks, indicating a dominant commercial retail banking orientation. Although a more detailed look at the chart and the relevant data reveals a slight yet clear downward trend in GB's case over the 1970s and 1980s coupled with a slight upward move in YKB's case over the 1980s, it is evident that these two banks had more or less isomorphic baking styles up until the end of the 1980s. Their differences were insubstantial and it is not possible to speak of any divergence. It is also noteworthy that both banks remained substantially above the private banks' average with respect to funds generation by deposit collection, staying away from the sharp downward moving average trend in the sector.

<u>The 1990s</u>:

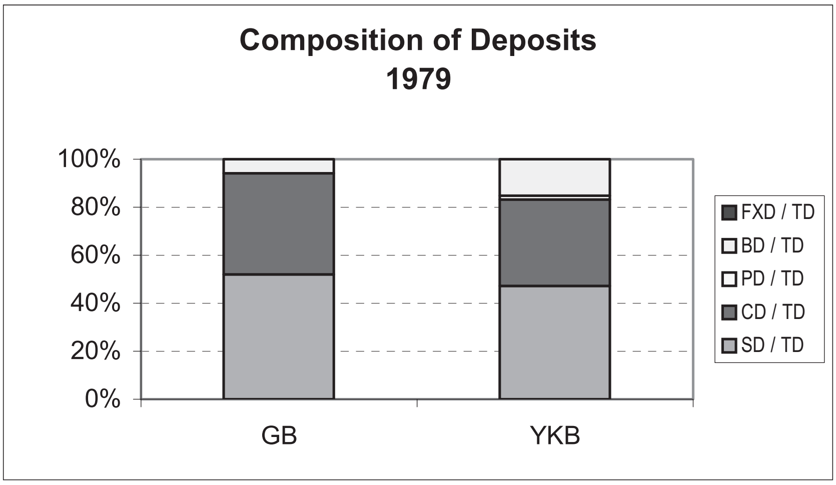
A more complicated picture emerges in the 1990s. YKB and GB each reduce the extent of reliance on deposit collection, whereas the sector on average becomes somewhat more deposit collection oriented. However, the end-result is not a situation of convergence. Firstly, the reduction observed in YKB's case is of a very limited magnitude in comparison with the reduction observed in GB's case. Thus, although the direction of change is similar in each case, the substantially different magnitudes of change give rise to a situation that can be characterised as divergent. The end result is a clear difference between the two banks (71% vs. 53%). YKB remains heavily deposit collection oriented, which is typical of commercial retail banking template, while GB takes on a position below private banks' average and reflects a contrasting approach.

Overall:

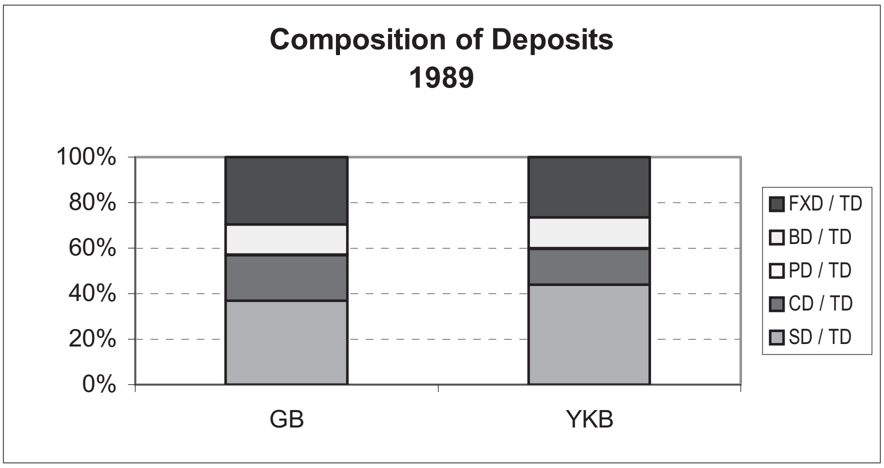
As an overall conclusion, it can be stated that YKB presents a very stable case throughout the entire period with insubstantial change regarding deposit orientation, whereas GB exhibits significant amount of change during the 1990s.



The saving deposits weighted deposits portfolios of GB and YKB indicate that both banks were predominantly dealing with individual customers at the of the 1960s. The evidently similar weights of savings deposits in each case further indicate a quite identical approach with respect to servicing individual customers. It is also evident that the extent of bank deposits was very limited in each case. Taken together, these observations indicate a clear retail orientation at that time present both at GB and YKB.

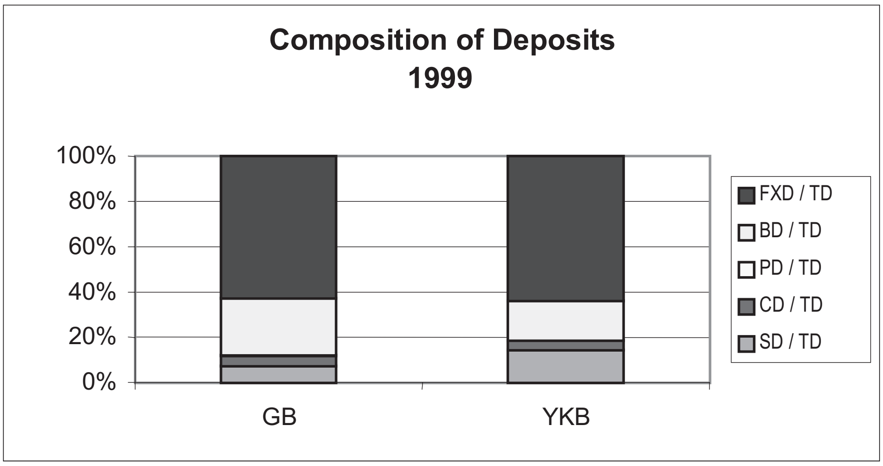


We later observe that, the weights of savings deposits go down a little bit, as commercial deposit business expands. This applies to both banks. An additional factor in YKB's case is the increase in the weight of bank deposits. Furthermore, a very small amount of public deposits also emerges in YKB's deposit portfolio. It is evident that YKB had a more diversified customer base than GB. It is still possible to infer that they were both operating in a retail mode at the end of the 1970s, because the weight of bank deposits can still be considered rather small.

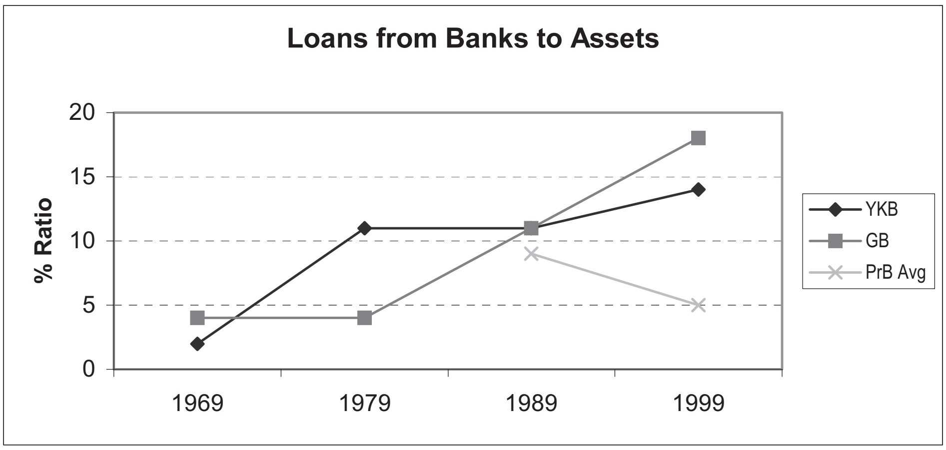


If we leave the emergence of foreign exchange deposits aside, it is possible to state that both GB and YKB continue to display at the end of the 1980s roughly the same characteristics as before. A small difference is that GB has become marginally more diversified than YKB, but both of these banks still exhibit a clear retail orientation, with strong emphasis on savings deposits as opposed to bank and commercial deposits.

Foreign exchange deposits constitute a somewhat problematic aspect of composition of deposits, as these cannot be clearly associated with a certain customer group. If we assume that these deposits can be broken down in the same manner as the rest of the breakdown observed in each case, we can simply disregard their role for making an inference on retail versus wholesale orientation. They are however also useful to make an inference on the degree of international involvement, since they reflect expertise in foreign exchange products and markets and in foreign trade. In that regard, both banks exhibit significant international involvement, although there is a marginal difference in favour of GB.



The increasing weight of foreign exchange deposits in the 1990s indicates a further increase in involvement with international markets and products in each case. We are however faced with an even larger problem in terms of making an inference on retail and wholesale approach to banking, because of the substantial weight of foreign exchange deposits in deposits portfolio. If we decide again to disregard this effect, it becomes possible to state that YKB still was much more retail oriented than GB, based on the weights of savings and bank deposits observed in each case. The weight of savings deposits was much larger in YKB's case, whereas the same applied to the weight of bank deposits in GB's case.

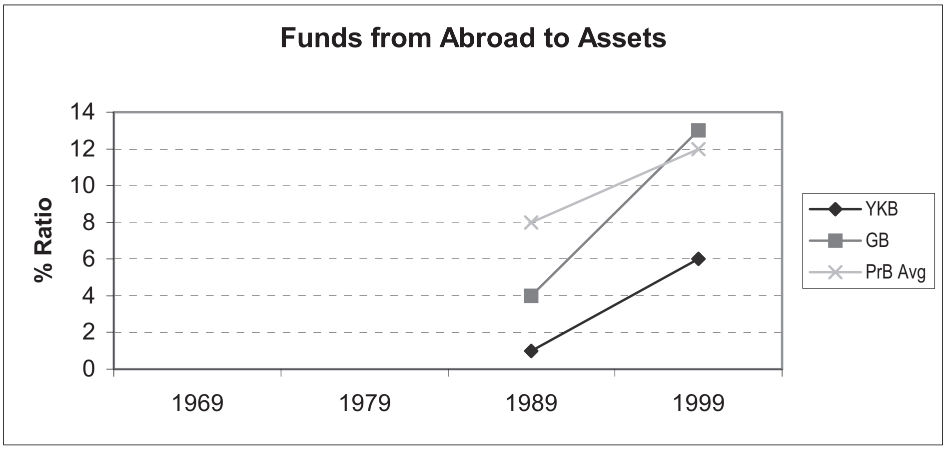


The 1970s and 1980s:

The graph depicting the weight of funds generated from other local banks (loans plus deposits of banks) indicates that the paths of YKB and GB have criss-crossed each other at least twice, while exhibiting an upward trend over the years. Starting out from a rather similar departure point at the end of the 1960s, we first observe that YKB substantially increased the weight of such funds in its portfolio during the 1970s while GB stagnated in that respect. This was a period of marked by a divergence stemming from YKB's changing behaviour. The opposite was the case during the 1980s. We then observe a full convergence between the two banks as GB starts to act as YKB earlier did. Helped by the stagnation in YKB's activities, GB's inter-bank funding reaches the same level by the end of the 1980s.

The 1990s:

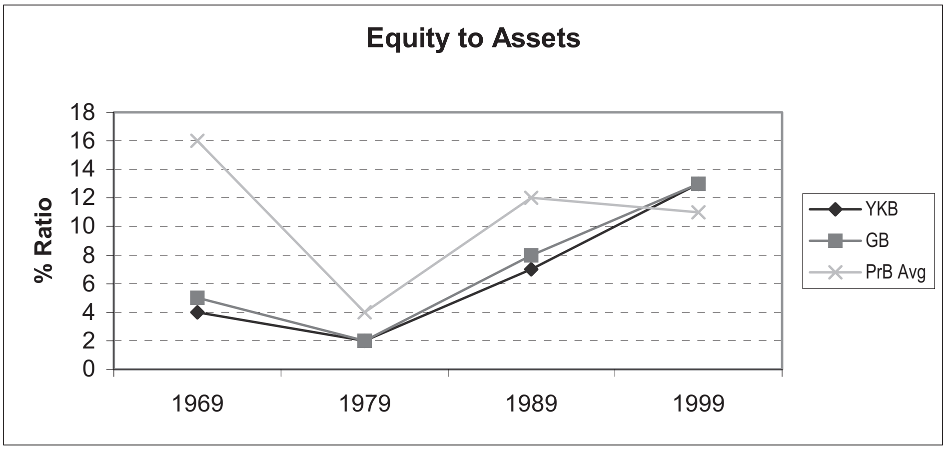
In the 1990s, despite moves in the same direction, we again observe some divergence between the two banks, as GB continues further at the same pace, without changing the momentum of the 1980s. The weight of inter-bank funds in GB's portfolio surpasses that of YKB, as the latter expands only by a more moderate amount. Indicating a relatively more stable retail orientation in YKB's case and a more significant shift in that respect in the case of GB, these additional observations complement the previously discussed observations on deposit taking business and the inferences flowing therefrom. (Here, it needs to be mentioned that the chart depicting the weight of deposits and the chart depicting the weight of inter-bank funds have different scales. If this difference is taken into account, it becomes clear that the bigger looking changes depicted in the latter chart cannot entirely account for the respective changes in deposit taking activity. Nevertheless, this does not interfere with or change the inferences following from the observations.) The decreasing reliance of GB on deposit collection is to some extent helped by the bank's preference and/or ability for making increasing use of funds from the inter-bank market in the 1990s. It is evident that its substitution of inter-bank funds for deposits is considerable, pointing at least a slight differentiation in the operating styles of between the two banks in that period. It should also be mentioned that both YKB and GB exhibit a clear divergence from the trend in sector average.



International borrowing was not possible until the mid-1980s. It is evident that both YKB and GB were making only very little use of international funds at this early stage. Especially in YKB's case funds from abroad constituted a negligible amount in the funds portfolio and GB was only by a very small margin ahead of YKB in that respect. Once again, this nicely complements the picture of deposit collection activities discussed earlier and strengthens the earlier drawn conclusions. A distinct retail orientation was visible in both cases at the end of the 1980s.

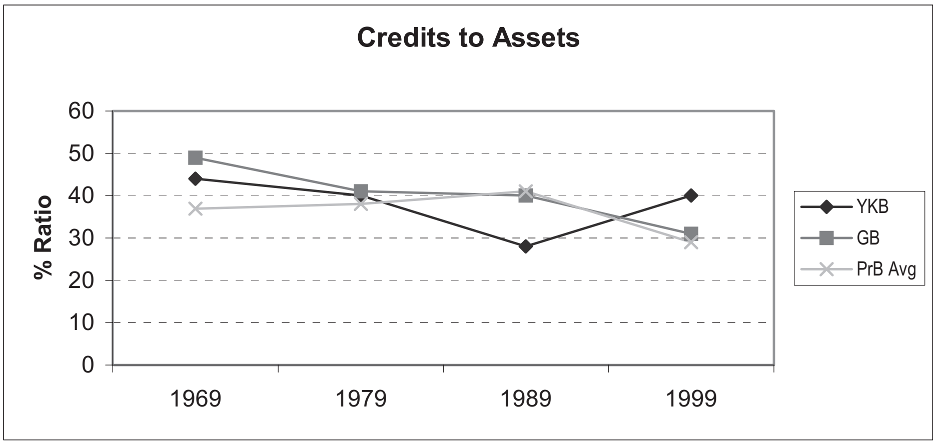
It is also evident that, between 1989 and 1999, each bank increased reliance on funds from abroad as the sector did so on average. International borrowing opportunities were in general significantly expanding then. It is worth noting that the rise in YKB's extent of reliance on this type of funds very much parallels the moderate rise in the sector average. The steeper rise in GB's case reflects on the other hand a more rapid and sharp increase in international involvement.

Another important point worth to mention is the following. As was the case with the two previous indicators of business template (i.e. deposit collection and inter-bank funding), the changes in the 1990s in GB's and YKB's reliance on international funding are in the same direction. However, because GB displayed a stronger change of direction in terms of each of all three indicators, these two banks' business templates started to exhibit significant divergence, a move away from a visibly isomorphic to a considerably less similar style of banking.



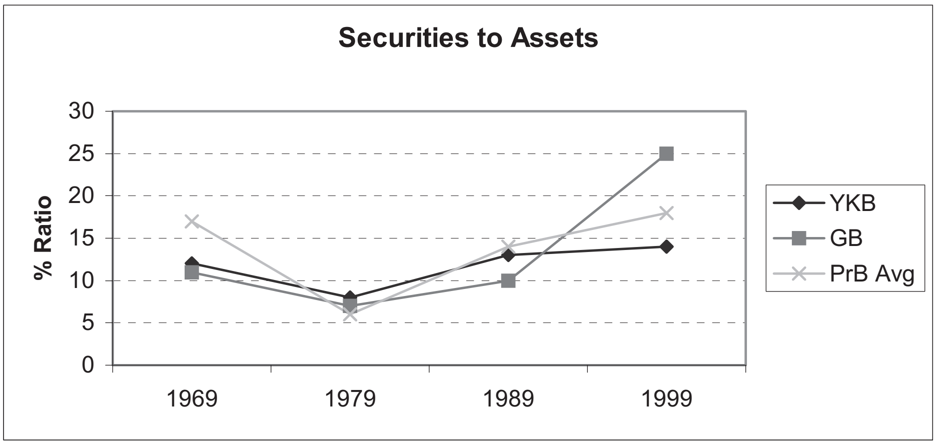
Interestingly, YKB and GB have always had an almost identical amount of equity capital relative to their respective assets size. This could be considered normal, given the regulatory requirements for a certain minimum amount of capital in relation to a bank's asset size. However, given that YKB and GB's capital ratios were almost identical while being considerably different from sector average, this cannot be considered the sole reason. Given their lower than average capital ratios before 1999, it appears like YKB and GB felt less concern for capital adequacy and associated risks until then. It may however also be that most smaller wholesale banks were obliged to have a high capital ratio, due to higher dependence on overseas borrowings. Especially for new banks, such a high ratio would have been very critical for international funding.

B) ANALYSIS OF TRENDS IN FUNDS PLACEMENT COMPONENTS



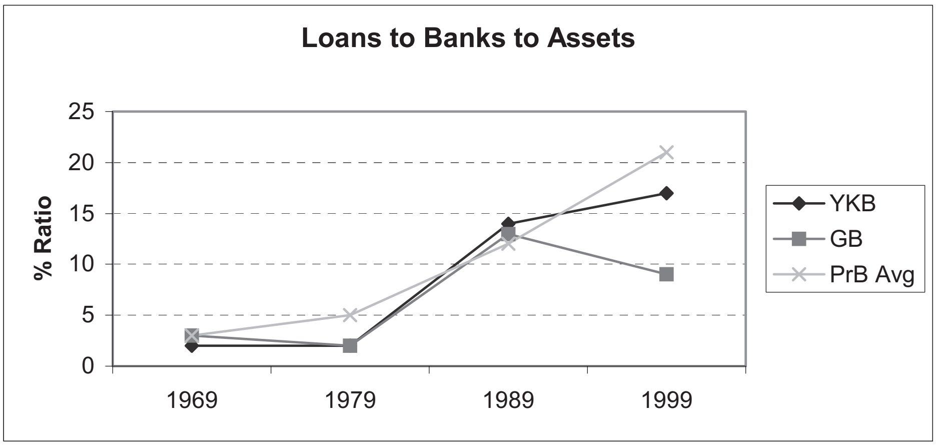
According to the above graphic, the weight of credits within the total assets portfolio of YKB and GB was considerable in the pre-1980 period. They displayed a similar and clearly credit oriented approach to banking, as indicated by their above average position until the of the 1970s. It is also evident that the same approach to banking prevailed at GB until the of the 1980s but was subsequently reduced considerably in the 1990s. YKB however exhibited a more volatile pattern, marked by a sharp drop in the 1980s followed by an equally sharp rise in the 1990s, pulling up its credit business to the pre-1980 levels. These different patterns of change reflect quite divergent tracks on the part of YKB and GB as far as credit orientation is concerned, hence in exhibiting the critical characteristic of a commercial bank. Despite a transitory break in the 1980s, YKB appears to display this critical characteristic more clearly than GB. It is evident that GB reduced the weight of this major activity continuously over the years, but especially in the 1990s. Nevertheless, as exactly the same kind of credit activity pattern is also evident in the sector average in the 1990s, it is not possible to say that GB was operating in a very special or deviant manner.

It should be pointed out that each bank ultimately ended up in a considerably different position by the end of the 1990s in terms of credit oriented commercial banking activity, with YKB taking the higher and GB the lower position in terms of credit orientation. It should also be mentioned that the same was observed in terms of deposit collection business. Roughly the same amount of difference was observed between the two banks, with YKB exhibiting a strongly deposit-oriented approach and GB taking a lower position. In that respect, our earlier inference regarding different business templates by the end of the 1990s is substantiated here. We observe that YKB operates with a more conventional commercial banking template and GB occupies a less clear position.



Looking at the patterns in funds placements in securities, it is possible to state that YKB's and GB's behaviour were in that regard quite similar until the end of the 1980s. In that period, YKB had a slightly higher tendency to invest funds in securities. However, in the 1990s we observe the weight of securities in GB's funds placements rocket, while YKB displays a much more stable behaviour. Roughly maintaining its earlier level, the latter remains much below sector average in terms of securities oriented funds placement activities.

This adds to earlier observations, which attested to a movement in GB's banking style away from conventional commercial retail banking towards a more investment banking-like and wholesale approach and the prevalence of a more conventional commercial retail banking template at YKB.

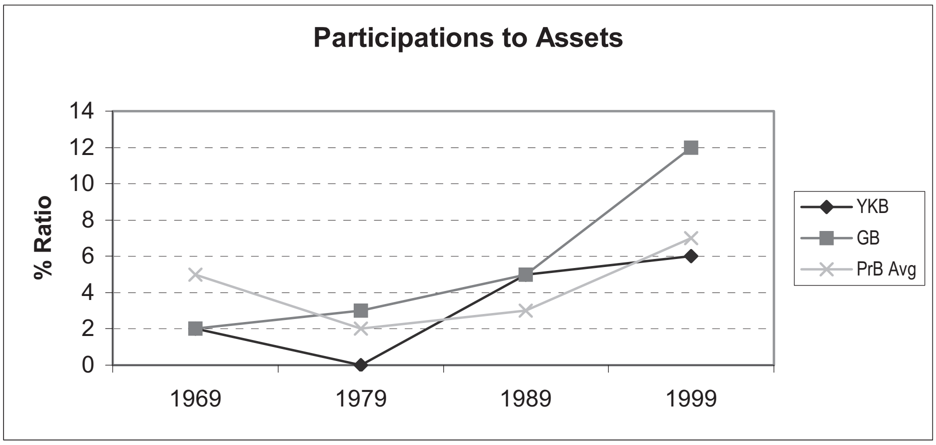


The 1970s and 1980s:

Regarding inter-bank funds placements, it is evident that YKB and GB were also behaving quite isomorphically up until the end of the 1980s, both taking advantage of placing surplus funds in the newly flourishing inter-bank market in the 1980s. Considering their strong ability of deposit collection, this is quite an expected type of behaviour.

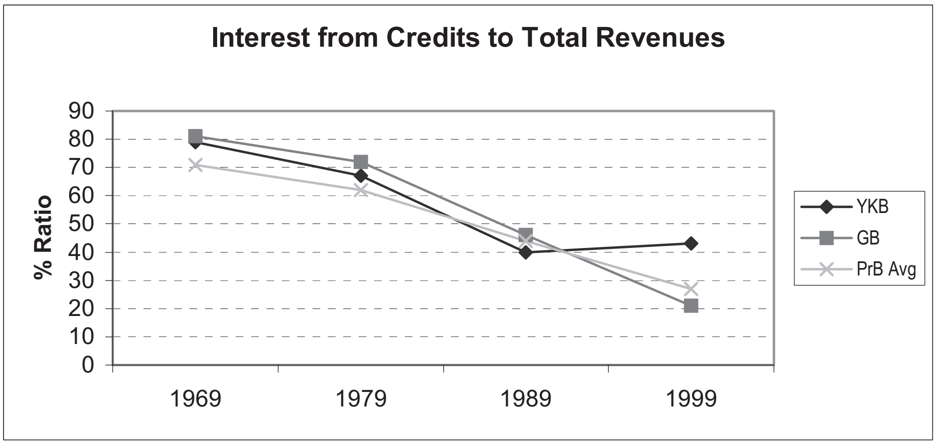
The 1990s:

We observe that YKB continues to expand the weight of inter-bank funds placements in the 1990s, whereas GB significantly contracts such activity. This gives rise to a situation where the two bank differ considerably from one another. For above-mentioned reasons, it is understandable why YKB continues expanding the weight of this practice. The contraction in GB's case is less straightforward to interpret, but it might be attributed to the sharp rise in its placements in securities, which is sufficiently large to account for the drops in both its inter-bank and credit placements.



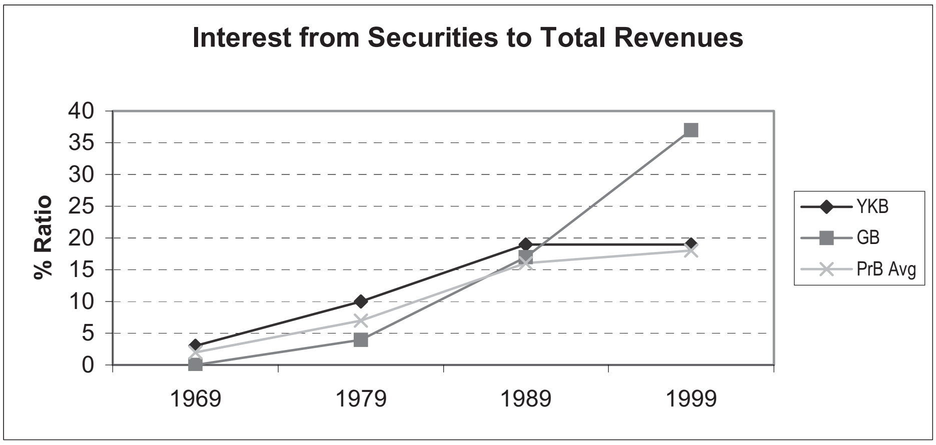
What we observe in YKB's and GB's behaviour in that respect reflects a divergence in the 1970s followed by convergence in the 1980s, which was again followed by divergence in the 1990s. YKB's equity participations increase only moderately in the 1990s, continuing to take up a moderate portion of the bank's total funds and remaining in the vicinity of the sector average. GB on the other hand displays a much sharper rise in the 1990s, pulling it higher above the sector average. These together give rise to substantial difference between the two banks at the end of the 1990s, in comparison with the end of the 1980s.

C) ANALYSIS OF TRENDS IN REVENUE COMPONENTS

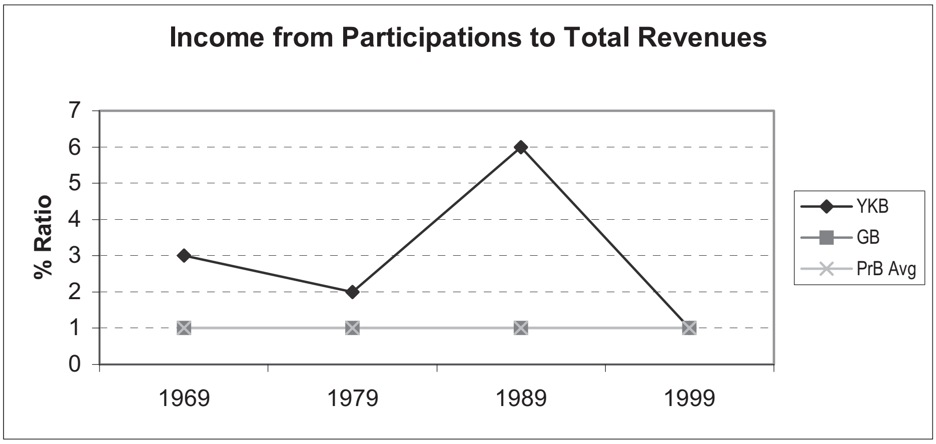


Despite differences in scale, the above graph indicates roughly the same kind of behaviour as the graph on credit business as far as YKB and GB are concerned. An exception is the roughly identical trend evident in the 1980s in the case of interest revenues from credits, which is due to the continuous drop in GB's interest revenue generation as opposed to its more stable credit business.

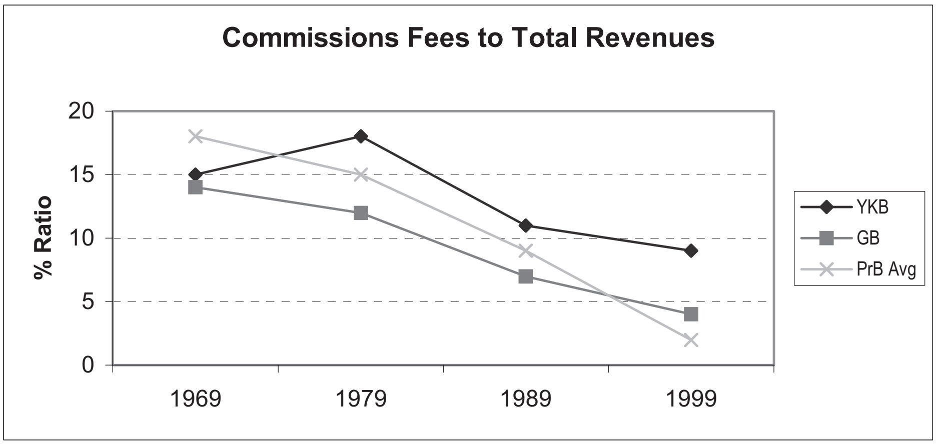
The pattern in the 1990s is supportive of the conclusions drawn earlier, based on the weights of credit business in that period. The continuing decrease in GB's extent of reliance on interest income from credits reflects a significant divergence from YKB, which again appears to stick to a more clear conventional commercial banking template.



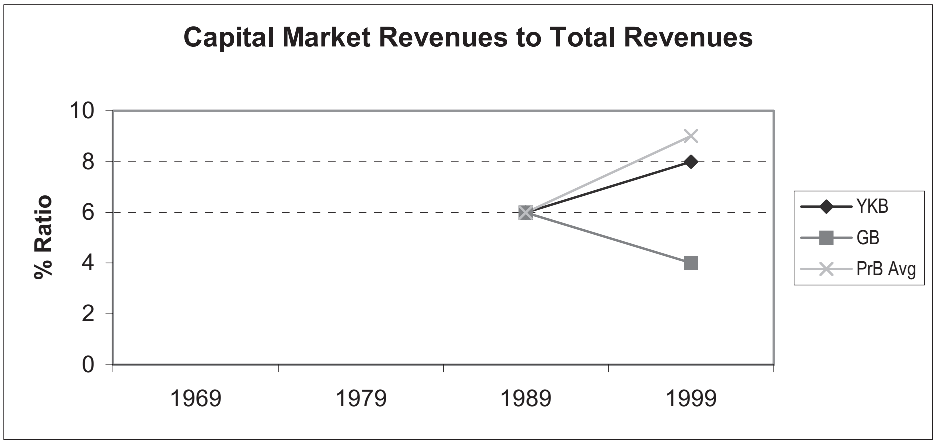
The patterns and trends emerging from the portion of revenues in the form of interest income earned on investments in securities are overall quite consistent with the earlier observed patterns on the weights of securities investments in total asset portfolio.



It is evident that, with the exception of the somewhat more important amount of revenues of YKB at the end of the 1980s, this type of revenue amounts to nothing more than a negligibly small amount.

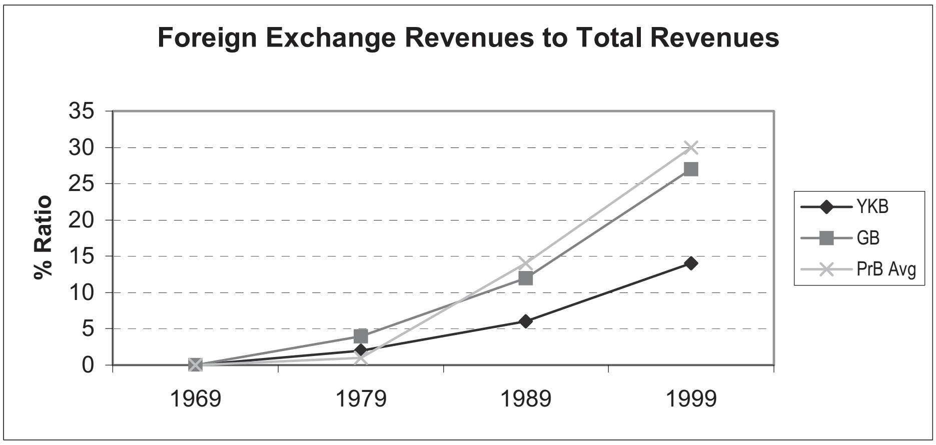


We observe that YKB and GB, starting out from an identical position at the end of the 1960s, initially move in divergent directions and end up in different positions at the end of the 1970s. They then preserve that difference all the way through to the end of the 1990s, despite their moves in parallel directions. YKB clearly displays a much more service oriented operational style than GB as well as the sector average all through the 1970s, 1980s, and 1990s.



Although the weights of capital market revenues were initially identical at YKB and GB, they subsequently diverged substantially, significantly rising in YKB's case and dropping in GB's. In terms of investment versus commercial banking, this observation indicates the opposite of what investment in securities and interest revenues from securities had indicated earlier, i.e. a move towards an investment-banking like approach in the case of GB, somewhat weakening the stronger earlier conclusions in that regard.

Although trading in capital market instruments, like investments in securities, is in general more closely associated with investment banking activities rather than commercial banking, unlike investments in securities, it can be an important indicator of retail banking as opposed to wholesale banking. This is because such trading activity usually involves a large number of customers, whereas a bank's own investments in insecurities is clearly a wholesale banking activity. We can thus confirm YKB's retail orientation also through this indicator and contrast it with the opposite case applying to GB.



It is clear that in both YKB and GB' s case, the weight of foreign exchange revenues have considerably increased in the post-1980 liberalised context, initially growing very moderately and then rising much more sharply in the 1990s. It is also evident that, despite a clear rise, the weight in YKB's stream of revenues remained significantly behind those of GB and the sector average. The latter two were in close vicinity of each other. Although the two banks displayed a similar trend in terms of growing involvement in international products and markets, the result was increasing divergence.

D) GLOBAL ANALYSIS OF FUNDS GENERATION – YKB vs. GB

SOURCES OF FUNDS AS % OF EACH BANK'S TOTAL ASSETS					
		1969	1979	1989	1999
Deposits to Assets	YKB	73	72	77	71
	GB	80	76	72	53
	Priv. Bank Avg.	58	69	54	63
Funds from Abroad to Assets	YKB	-	-	1	6
	GB	-	-	4	13
	Priv. Bank Avg.	-	-	8	12
Inter-Bank Borrowings to Assets	YKB	2	11	11	14
	GB	4	4	11	18
	Priv. Bank Avg.			9	5
Shareholders' Equity to Assets	YKB	4	2	7	13
	GB	5	2	8	13
	Priv. Bank Avg.	16	4	12	11

Throughout four decades, deposits have remained YKB's major source of funds, changing little in importance despite some increase in its international and inter-bank borrowings. The portion of deposits in YKB's total funds has always been higher than the average of private local banks in the sector.

Although deposits were a similarly important resource for GB until 1989, the bank considerably reduced its reliance on deposits in 1999, by making considerably more use of international and inter-bank borrowings than YKB. The portion of deposits in GB's total funds dropped below the average of private local banks, while its inter-bank borrowings rose far above the average of these. Whereas its degree of reliance on international borrowings was half of the average in 1989, it surpassed the average in 1999.

BREAK-DOWN OF DEPOSITS AS % OF EACH BANK'S TOTAL DEPOSITS					
		1969	1979	1989	1999
Savings Deposits to Total Dep.	YKB	67	47	43	14
	GB	70	52	36	7
	Priv. Bank Avg.	67	46	32	13
Commercial Dep. to Total Dep.	YKB	30	36	16	4
	GB	25	42	20	5
	Priv. Bank Avg.	21	41	20	13
Bank Deposits to Total Dep.	YKB	2.8	15	13.3	17.5
	GB	4.4	5.8	13	25
	Priv. Bank Avg.	10	11	18	15
FX Deposits to Total Dep.	YKB	-	-	26	63
	GB	-	-	29	62
	Priv. Bank Avg.	-	-	29	64

E) GLOBAL ANALYSIS OF FUNDS PLACEMENT – YKB vs. GB

TYPES OF PLACEMENTS AS % OF EACH BANK'S TOTAL ASSETS					
		1969	1979	1989	1999
Credits to Assets	YKB	44	40	28	40
	GB	49	41	40	31
	Priv. Bank Avg.	37	38	41	29
Securities to Assets	YKB	12	8	13	14
	GB	11	7	10	25
	Priv. Bank Avg.	17	6	14	18
Participations to Assets	YKB	2	0	5	6
	GB	2	3	5	12
	Priv. Bank Avg.	5	2	3	7
Loans to Banks to Assets	YKB	2	2	14	17
	GB	3	2	13	9
	Priv. Bank Avg.	3	5	12	21

Although remaining a bit higher than the average of privately owned banks, credits' role in GB's funds placement portfolio has decreased considerably, especially in the 1990s. A similar drop in YKB's case earlier in the 1980s is reversed by the subsequently sharp rise in the 1990s, pulling the portion of funds supplied as credits to the same level as in 1979 as well as to a level much above the average of private banks in 1999.

In either bank, the portion of funds placed in securities have increased but remained below private banks' average in the 1980s. Continuing rise in GB's case over the 1990s has however pulled GB way above private bank average in 1999, whereas YKB remained below.

With respect to funds supplied to other banks, although remaining below average, both YKB and GB have been much more active in the 1980s. However, GB remains behind YKB in 1990s, which is not surprising given the relatively bigger role of deposits in YKB's funds generation portfolio (see above) and the high increase in GB's investments in securities and participations.

F) GLOBAL ANALYSIS OF REVENUE COMPOSITION - YKB vs. GB

TYPES OF REVENUES AS % OF EACH BANK'S TOTAL REVENUES					
		1969	1979	1989	1999
Interest Rev. to Total Rev	YKB	82	78	64	68
	GB	81	76	69	64
	Priv. Bank Avg.	74	66	66	57
Interest from Credits to Total Rev	YKB	79	67	40	43
	GB	81	72	46	21
	Priv. Bank Avg.	71	62	44	27
Interest fr. Securities to Total Rev	YKB	3	10	19	19
	GB	0	4	17	37
	Priv. Bank Avg.	2	7	16	18

The portion of interest revenues have continuously dropped in each bank, with YKB realising the largest drop in 1980s. This however, remained still higher than private bank average. In both YKB and GB, the portion of interest earned on credits has dropped especially sharply in the 1980s, to a large part compensated by an equally drastic rise in the portion of interest revenues from securities portfolio. These opposite trends are much sharper in GB in 1990s, putting it in a position below the average in the case of interest earned on credits and much above average in the case of interests earned on securities.

(continued from above)					
		1969	1979	1989	1999
Commission Fees to Total Rev	YKB	15	18	11	9
	GB	14	12	7	4
	Priv. Bank Avg.	18	15	9	2
FX Revenues to Total Rev	YKB	0	2	6	14
	GB	0	4	12	27
	Priv. Bank Avg.	0	1	14	30
Capital Market Rev. to Total Rev	YKB	-	-	6	8
	GB	-	-	6	4
	Priv. Bank Avg.	-	-	6	9
Income fr. Particip. to Total Rev	YKB	3	2	6	1
	GB	1	1	1	1
	Priv. Bank Avg.	1	1	1	1

The drop in the portion of commission and fee income is significant in both cases. However, despite such a major drop, this has remained way above private banks average. The drops in the portion of interest as well as commission and fee income in each case is closely associated with the rise in the portion of foreign exchange revenues. The respective figures in the case of YKB and GB were however still lower in comparison to average.

G) GLOBAL SUMMARY OF FUNDS GENERATION, PLACEMENT, AND REVENUES

FUNDS GENERATION, FUNDS PLACEMENT, AND REVENUES				
		Pre-1980	1989	1999
Composition of Funds	YKB	Deposit dominated Some inter-bank borrowing	Deposit dominated Some inter-bank & international borrowings	Deposit dominated Increasing inter-bank & international borrowings
	GB	Deposit dominated Some inter-bank borrowing	Deposit dominated Some inter-bank & international borrowings	Decreasing deposit domination of funds Significant inter-bank & international borrowings
Composition of Placements	YKB	Credit dominated	Credits less important Increasing importance of securities, inter-bank loans and participations	Credit dominated
	GB	Credit dominated	Credit dominated Increasing importance of securities, inter-bank loans and participations	Credits less important Increasing importance of securities and participations
Composition of Revenues	YKB	Loan interest dominated Some commission & fee income	Loan interest dominated Increasing importance of interest earned on securities, foreign exchange income and capital market revenues	Loan interest dominated Increasing importance of foreign exchange income
	GB	Loan interest dominated Some commission & fee income	Loan interest dominated Increasing importance of interest earned on securities, foreign exchange income and capital market revenues	Loan interest and commission & fee income losing importance Increasing reliance on interest earned on securities and foreign exchange income

APPENDIX 7

A) OVERVIEW OF STABILITY-CHANGE AND ISOMORPHISM-DIVERSITY ACCORDING TO QUANTITATIVE VARIABLES

What follows from our observations in Appendix 5 and 6 can be summarised as follows. Whereas YKB's and GB's funding and funds placement styles were more or less similar up until the end of the 1980s, we observe substantial divergences in the 1990s. Mainly due to more radical changes in GB's case, these divergent patterns of behaviour result in significant differences between the two banks. In most situations, YKB also remains closer to sector average than GB, except in international fund generation and credit business.

Assuming that the above explained aspects of funds generation and placements serve as a useful indicator for making the aforementioned inferences about banking templates, it would be worthwhile to reiterate the following. YKB represents the most stable case with relatively little change in banking style over the years. This appears to have sticked to a conventional commercial banking template. Its funds predominantly consist of deposits and are predominantly used for credit supply as opposed to investments in securities and equity participations. Its international funding activities also being of limited magnitude, it can also be said that the extent of the bank's international involvement or internationalisation has remained relatively restricted. The only major changes in YKB's funding and funds placement activities involve inter-bank borrowings and lending. The bank has become a much more active participant in the inter-bank market, quite actively managing its funds deficit and surplus, which actually underlines the point that it has preserved its commercial banking character.

GB on the other hand represents a quite stable case up until the end of the 1980s, but also shows significant template shifts in the 1990s. Whereas the extent of similarities between GB and YKB were almost of isomorphic nature, the changes observed in GB's case in the 1990s imply a significant divergence from a conventional commercial banking template, of which YKB is a better example. The significant amount of substitution of credit supply activities by placements in securities and equity participations denote a departure from a pure commercial banking template, although falling short of implying a complete or radical transformation. Similarly, the substitution of deposit collection by international funding points at a change in the same direction, although falling short of indicating any substantial involvement with international markets.

The following sections present the change and isomorphism indications of our observations on YKB and GB as discussed in Appendix 5 and 6.

B) EXTENT OF CHANGE

BREAKDOWN OF CHANGES BY DEGREE			
	1970s	1980s	1990s
YKB	3 / 18 (High) 14 / 18 (Moderate) 1 / 18 (None or Negligible)	9 / 18 (High) 5 / 18 (Moderate) 4 / 18 (None or Negligible)	7 / 20 (High) 8 / 20 (Moderate) 5 / 20 (None or Negligible)
GB	1 / 18 (High) 11 / 18 (Moderate) 6 / 18 (None or Negligible)	9 / 18 (High) 5 / 18 (Moderate) 4 / 18 (None or Negligible)	14 / 20 (High) 3 / 20 (Moderate) 3 / 20 (None or Negligible)

It should be mentioned that the variables which concern market share in revenues and profits as well as revenues per branch and employee have been disregarded were not included in the analysis presented in the table above. This is because the first two of these variables do not reflect entirely organisation dependent changes, and the scales, which were used in the case of the latter two variables, were different at different times.

This short summary indicates that YKB and GB displayed a similar amount of change in the 1980s as reflected by equal frequencies of different change categories in that period. It also indicates however that GB displayed a much higher amount of change than YKB in the 1990s as reflected by the frequencies of "high" and "none-negligible" changes. The same holds even when the number of "moderate" and "high" changes are added up.

C) DIRECTION OF CHANGES

BREAKDOWN OF CHANGES BY DIRECTIONS			
	1970s	1980s	1990s
YKB – GB	13 / 17 (Same direction) 1 / 17 (Convergence) 3 / 17 (Divergence)	10 / 17 (Same Direction) 5 / 17 (Convergence) 2 / 17 (Divergence)	6 / 19 (Same Direction) 5 / 19 (Convergence) 8 / 19 (Divergence)

It should be mentioned that also the variables concerning deposit composition were not included in the analysis presented in the above table. A situation was classified as "same direction", if a pair of two directions was either (nearly) parallel or did not involve a substantial amount of change (increase or decrease) in the difference between respective banks. The situations classified as convergence (divergence) respectively involved a substantial amount of decrease (increase) in the difference between a given pair of banks.

It is noteworthy that most of the changes observed at YKB and GB in the 1970s and 1980s involved moves in the same direction as opposed to a convergence or divergence. In the 1990s however, we observe a significant amount of divergent trends if we compare the moves of these two banks. Even though the total number of "same direction" and "convergence" situations was higher than the number of "divergence" situations in that period, the relatively high frequency of "divergence" still indicates that these two banks displayed considerably different approaches.

D) EXTENT OF ISOMORPHISM

BREAKDOWN OF SIMILARITIES BY DEGREE				
	1969	1979	1989	1999
YKB – GB	13 / 21 (Identical or Highly Similar) - 9 / 21 (Different)	13 / 21 (Identical or Highly Similar) 4 / 21 (Similar) 4 / 21 (Different)	12 / 24 (Identical or Highly Similar) 4 / 24 (Similar) 8 / 24 (Different)	6 / 24 (Identical or Highly Similar) 4 / 24 (Similar) 14 /24 (Different)

All of the earlier discussed variables were taken into account in this analysis of isomorphism, including those that are related with size and efficiency indicators. It is evident that YKB and GB displayed considerable extent of isomorphism up until the end of the 1980s, given that the majority of variables indicated identical /highly similar characteristics. We also observe that this was no more the case at the end of the 1990s, given that the majority of the variables indicating significantly different characteristics then.

E) COMPARATIVE STANDINGS OF CASE STUDY BANKS IN TERMS OF QUANTITATIVE VARIABLES

COMPARATIVE RATINGS								
	1969		1979		1989		1999	
	YKB	GB	YKB	GB	YKB	GB	YKB	GB
I. FUNDS GENERATION ITEMS								
Deposits / Assets	+/+	+/+	+/+	+/+	+/+	+/+	+/+	+
Saving Deposits / Deposits	+/+	+/+	+	+	+	+	+/-	-
Commercial Deposits/ Deposits	+/-	+/-	+	+	+/-	+/-	-	-
Public Deposits / Deposits	…	…	…	…	…	…	…	…
Banks' Deposits / Deposits	-/-	-/-	-	-/-	+/-	+/-	+/-	+/-
FX Deposits / Deposits	…	…	…	…	+	+	+/+	+/+
Inter-Bank Funding / Assets	-/-	-/-	-	-/-	-	-	+/-	+/-
Funds From Abroad / Assets	…	…	…	…	-/-	-/-	-	+/-
Equity / T. Assets	-/-	-/-	-/-	-/-	-	-	+/-	+/-
II. FUNDS PLACEMENT ITEMS								
Credits / Assets	+/+	+/+	+/+	+/+	+	+/+	+/+	+
Securities / Assets	-	-	-	-	-	-	+/-	+
Interbank Funds Placements/Assets	-/-	-/-	-/-	-/-	+/-	+/-	+/-	-
Participations / Assets	-/-	-/-	-/-	-/-	-	-	-	+/-
III. REVENUE ITEMS								
Interest Rev. from Credits / Rev	+/+	+/+	+/+	+/+	+	+	+	+/-
Interest Rev. from Securities / Rev	-/-	-/-	-	-/-	+/-	+/-	+/-	+
Income From Participations / Rev	-/-	-/-	-/-	-/-	-	-/-	-/-	-/-
Commissions & Fees / T. Rev	+/-	+/-	+/-	+/-	+/-	-	+/-	-/-
Capital Market Revenues / Rev	…	…	…	…	-/-	-/-	-	-/-
Foreign Exchange Revenues / Rev	-/-	-/-	-/-	-/-	-	-	+/-	+
IV. SIZE ITEMS								
Market Share of Branches	+/+	+	+/+	+	+/+	+	+	+/-
Branch Network Size	+	+/-	+/+	+	+/+	+	+	+/-
Market Share of Personnel	+/+	+/-	+/+	+/-	+	+/-	+	+/-
Personnel Size	+	+/-	+/+	+/-	+/+	+	+/+	+
V. OTHER ITEMS								
Revenues per Branch	+/-	+/-	+/-	+/-	+/-	+/-	+/-	+
Revenues per Employee	+/+	+/-	+/-	+/-	+/-	+/-	+/-	+

+/+Very high
+ High
+/- Moderate
- Low
-/- Very low
… Not applicable

F) COMPARATIVE STANDINGS OF THE TWO BANKS IN TERMS OF BANKING TEMPLATES (BASED ON RATINGS IN QUANTITATIVE VARIABLES)

COMPARATIVE RATINGS								
	1969		1979		1989		1999	
	YKB	GB	YKB	GB	YKB	GB	YKB	GB
Commercial (vs. Investment) Banking Orientation	+/+	+/+	+/+	+/+	+	+	+	+/-
Universalness (Degree of Generalism vs. Specialism along Commercial-Investment Axis)	-	-	-	-	+/-	+/-	+/-	+
Retail (vs. Wholesale) Banking Orientation	+/+	+/+	+/+	+/+	+	+	+	+/-
Hybridness (Degree of Generalism vs. Specialism along Retail-Wholesale Axis)	-	-	-	-	+/-	+/-	+/-	+
International Involvement	-/-	-/-	-/-	-/-	+/-	+/-	+/-	+
Service & Safety	+/-	+/-	+	-	+/-	-	+/-	-
Efficiency	+	+/-	+/-	+/-	+/-	+/-	+/-	+

+ / + Very high
\+ High
+ / - Moderate
\- Low
- / - Very low
… Not applicable

APPENDIX 8

INTERVIEWEES

BANK **: Yapı Kredi Bank (YKB)**

INTERVIEWEE : Selçuk Altun (S.A.)
PLACE : Yapı Kredi Plaza
DATE : April 8, 2002
TIME : 15:00-17:00
TITLE OF INT'EE : : Member of the Board of Directors
WITH YKB SINCE : 1986
PREV. POSITIONS : Senior Executive V.P. and Acting President Finance and Administration
OTHER : Highest level contact at the bank

INTERVIEWEE : Dr. Reha Yolalan (R.Y)
PLACE : Yapı Kredi Plaza
DATE : April 10, 2002
TIME : 9:00-11:00
TITLE OF INT'EE : Vice President – Risk Management
WITH YKB SINCE : 1985-86; 1991
PREV. POSITIONS : Economic Research

INTERVIEWEE : Birol Yücel and Pınar Salcı (B.Y. and P.S.)
PLACE : Yapı Kredi Plaza
DATE : April 15, 2002
TIME : 15:00-16:30
TITLE OF INT'EE : Vice President – Financial Planning and Control and Manager – Financial Planning and Control
WITH YKB SINCE : 199-
PREV. POSITIONS : Came from Arthur Andersen

INTERVIEWEE : Selçuk Karaata (Se.Ka)
PLACE : Yapı Kredi Plaza
DATE : April 16, 2002
TIME : 17:00-18:30
TITLE OF INT'EE : Assistant General Secretary
WITH YKB SINCE : 199-.
PREV. POSITIONS : -

INTERVIEWEE : Erdem Aldemir (E.A.)
PLACE : Yapı Kredi Plaza
DATE : April 26, 2002
TIME : 11:00 -13:00
TITLE OF INT'EE : Vice President, Commercial Credits
WITH YKB SINCE : 1961
PREV. POSITIONS : Branch Manager, Manager-Credits
OTHER : Interviewee with the longest experience with YKB

BANK	**: Türkiye Garanti Bankası (Garanti Bank) (GB)**
INTERVIEWEE	: Saide Kuzeyli and Zeynep Berberoğlu (Sa.Ku. and Z.B)
PLACE	: Humanitas A.S., Taksim
DATE	: April 9, 2002
TIME	: 14:00-15:30
TITLE OF INT'EE	: Gen. Manager-Humanitas & Assistant General Manager-Humanitas
WITH GARANTI SINCE	: 1988
PREV. POSITIONS	: Executive Vice President- Human Resources at GB and Manager Education and Training at GB
INTERVIEWEE	: Fikret Özkan (F.O.)
PLACE	: Internal Control Unit, Galatasaray
DATE	: April 12, 2002
TIME	: 10:00-12:00
TITLE OF INT'EE	: Director - Internal Control
WITH GARANTI SINCE	: 1990
PREV. POSITIONS	: Internal Control, Various Project Management Teams
INTERVIEWEE	: Süleyman Karakaya (Sul.Kar.)
PLACE	: Regional Management - Istanbul-2, Gayrettepe
DATE	: April 12, 2002
TIME	: 16:00-18:30
TITLE OF INT'EE	: Regional Manager - Commercial Marketing
WITH GARANTI SINCE	: 1981
PREV. POSITIONS	: Internal Auditing, Credits, Personal Loans, Problem Loans, Commercial Credits
INTERVIEWEE	: Tamer SAKA (T.S.)
PLACE	: Regional Management, Istanbul-1, Kozyatagi
DATE	: April 24, 2002
TIME	: 9:30-11:30
TITLE OF INT'EE	: Regional Manager – Retail Credits
WITH GARANTI SINCE	: 1979
PREV. POSITIONS	: Assistant Manager - Internal Audit, Manager - Internal Audit, Assistant Manager - Branch, Branch Manager, Regional Manager
INTERVIEWEE	: Selçuk Çayoglu (S.C.)
PLACE	: Garanti Operations Center, Gunesli
DATE	: April 25, 2002
TIME	: 14:00-16:00
TITLE OF INT'EE	: Manager – Customer Satisfaction
WITH GARANTI SINCE	: 1979
PREV. POSITIONS	: Internal Audit, BPR Project, Deposits and Services Management, System Development Project, Project Development and Management, Operations Centre
INTERVIEWEE	: Sema YURDUM (S.Y.)
PLACE	: Garanti Headquarters, Maslak
DATE	: May 3, 2002
TIME	: 10:00-12:00
TITLE OF INT'EE	: Executive Vice President – Management Services
WITH GARANTI SINCE	: 1980
PREV. POSITIONS	: Systems Development Project, MIS Projects, Financial Planning and Control

APPENDIX 9

INTERVIEW PROTOCOL

The major topics of interest in the interpretive stage of research, i.e. the case studies, can be grouped into two major sets. One of these concerns the organisational realities and practice, the other the enacted environment as experienced by each individual organisation. These two sets of topics are listed in sections A and B respectively. A third set of topics is also important and deals with the actors' 'subjective' view of the interrelationship between organisational practice and the enacted environment. In other words, these address their own rationality concerning the effects of the enacted environment on the organisation and vice versa. They are listed in section C. In each of the sections, the targeted information pertain to (1) the substance of developments/events, (2) the sequence/timing/order of developments/events, (3) the rationale and motivations of decision makers/strategic agencies.

A) About Business Templates: Business Domain, Strategy, and Operational Mode

A.1 Domain of Operations / Strategic Orientation

a) Targeted markets and customer groups
b) Actual market penetration and niches
c) Diversification / specialisation

- Markets:
  - money markets (including the FX markets) vs. capital markets
  - commercial banking or investment banking vs. combination of commercial and investment banking (i.e. universal banking)
  - credit based inter-mediation vs. financial services orientation
  - direct participation in industry
- Customers:
  - individuals vs. corporations (consumer vs. corporate banking / retail vs. wholesale orientation)
  - financial customers and market making activities
  - presence of target sectors (sector specialisation)
  - targeted individual customers
  - targeted consumer markets
  - targeted corporate customers (small vs. big business)
  - targeted corporate markets
  - targeted investment banking areas
  - group firms as a customer
  - multinationals as customer
  - targets in overseas / international markets
  - public enterprises as a customer
  - concentration of customers
- Diversification – Specialisation:

- overall extent
- priorities

What major developments took place?
When did these take place?
Why did these take place? What were the rationale and motivations behind decisions and actions that took place?

A.2 Mode of Operations / Principles of Organising (managerial, organisational, operational structure and processes)

- Structural aspects:

(concerning all banking operations such as asset-liability / risk management, marketing / sales and customer interface and relationships, internal transactions, performance monitoring and control, etc.)

- extent and basis of horizontal differentiation
  - number of functional, geographic, and product groups
  - size of different groups
- importance / influentialness of functions (e.g. treasury, marketing, operations, and control)
- extent of vertical differentiation (hierarchical distance)
- extent of work autonomy, authority sharing / delegation (de-centralisation)
  - individual autonomy
  - branch autonomy
  - divisional autonomy
- integration mechanisms
  - relationship management (integrated interface of customers and specialists) vs. diffusion of transactions
  - extent of formal co-ordination (regular meetings, regular reports)
  - standardisation of rules, procedures, approval and control mechanisms
  - elaborateness of rules, procedures, and approval mechanisms
  - strictness of rules, procedures, and approval mechanisms

- Human resource aspects:
  - internal vs. external recruitment for non-entry level jobs
  - specialists vs. generalists (rotational professional development and promotion)
  - individual vs. collective appraisal
  - bases of promotion
  - average frequency of promotion
  - types of career tracks and effects on career advancement
  - employee turnover
  - entry level training (management trainee programs)

- advanced training (in-house training vs. special courses)
- organisational culture

- Relational aspects:
  - customer relations and house-banking
    - longevity of relations
    - scope of relations
      - customisation of (customer-specific) products and services
      - customer-based flexibility
      - customer tolerance
      - with corporate customers from the same business group
      - with corporate customers from other business groups
      - with other (independent) corporate customers
  - network relations
    - with affiliated financial institutions
      - extent of co-operation and nature of relationship
      - integration
    - with local banking institutions
      - concentration of network relations
      - longevity of relations
      - scope of relations
      - flexibility and tolerance in relations
    - with financial institutions abroad
      - concentration of network relations
      - longevity of relations
      - scope of relations
      - flexibility and tolerance in relations
  - competitor relations (competitive vs. co-operative)
    - peer group relations
    - relations with foreign owned banks
    - relations with others
  - owner relations and governance
    - owner involvement in management
    - role of the bank within business group
    - effects of the policies of the group on bank management
  - relations with group firms
    - nature of relations with firms within the business group where the bank is a financial stakeholder
    - nature of relations with firms within the business group where the is not a financial stakeholder
  - relations with regulatory authorities and economic bureaucracy
    - extent of involvement in and influence on major economic / regulatory measures

- role within Banks' Association

What major developments took place?
When did these take place?
Why did these take place? What were the rationale and motivations behind decisions and actions that took place?

A.3 Major Goals and Performance Criteria

a) Relative importance of each
b) Possible trade-offs

- Market related objectives and concerns
  - profitability
  - overall market share
  - market share in targeted niches
  - revenue growth
- Risk and safety related objectives and concerns
  - liquidity
  - asset quality
  - capital adequacy
- Social / political objectives and concerns
  - support to affiliated companies
  - support to specific customer groups
  - support to long-term customers
  - concern with social responsibilities & reputation

What major developments took place?
When did these take place?
Why did these take place? What were the rationale and motivations behind decisions and actions that took place?

B) About Enacted Environment (External and Internal Context)

B.1 Resources and Power Dynamics

- Important resources
  - Owners' financial strength
  - Easy access to international fund providers
  - Quality of work force
  - Superior technology
  - Business group ties and relations
  - Executive talent
  - Branch network
  - New technologies
  - Age / historic reputation
  - Size
  - Ties with elites in state bureaucracy
- Resource advantages of the focal bank
  - Owners' financial strength
  - Easy access to international fund providers
  - Quality of work force
  - Superior technology
  - Business group ties and relations
  - Executive talent
  - Branch network
  - New technologies
  - Age / historic reputation
  - Size
  - Ties with elites in state bureaucracy
- Power dynamics among banks
  - Market power
  - Political power
  - Social power
- Power base of the focal bank
  - Market power
  - Political power
  - Social power
- Relationship between focal bank's resource base and strategic orientation
  - Most influential resources for strategic flexibility
- Relationship between 'objective' indicators of power and 'subjective' indicators of power
  - Size
  - Business group
  - History and age
  - Ties with elites in state bureaucracy
  - Role in Banks' Association

B.2 Competitive Logic

a) In the sector in general
b) Regarding the specific behaviour of the focal bank

- The impact of the increase in competitive density
    - service quality
    - price competition
    - innovative behaviour
- The nature of competition for resources
- for funds
- for customers
- for human resources
- longevity of customer relations and importance of house-bank (main bank) relations
- The nature of competition for markets (consumer-corporate, retail-wholesale)
    - for share in market segments
    - for funds placement
    - for service income
    - general perception of the bank (quality, price, flexibility/tolerance, financial strength)
    - in general the relative importance of the above
- Extent of aggressive (competitive) behaviour
    - first mover advantages and innovative behaviour
    - price competition
    - service quality
    - integration/bundling of services
    - risk-safety implications
    - for new customers
    - for keeping customers
- Perceived effects of the behaviour of competitors
- peer group of banks (the most important competitors)
    - state banks
    - foreign banks
    - other banks

Which developments took place?
When?
What was the rationale / logic / motivations behind?
With which consequences?

B.3 Stakeholder Influence and Relations

- Owners
    - Individuals
    - Business group

- Share and role/extent of influence within the board of directors
- Affiliated companies
  - Other financial institutions in the group
  - Other industrial companies in the group
  - Share and role/extent of influence within the board of directors
- Executives
  - Share and role/extent of influence within the board of directors
  - Insider members of the board
  - Outside members of the board
  - Top management's personal and professional characteristics
- Employees
  - Level of major strategic decisions
- Regulators
  - Treasury
  - Central Bank
- Corporate customers
  - Long term customers
  - Big customers

B.4 Isomorphic Pressures

a) Pressures for isomorphism
b) Implications of isomorphism
c) Value of differentiation
d) Attempts for differentiation

- Coercive / regulative pressures
  - Banking regulations
  - Effectiveness of external control
  - Counter pressures (to influence regulative decision making)
  - Implications for different types of banks
  - Role of Banks' association
- Normative pressures
  - Professional norms
    - Role and influence of educational background
    - Role and influence of certain educational institutions
    - Role and influence of international banking standards
    - Role and influence of international network ties
    - Role and influence of consultants
    - Role of inter-company management transplants
  - Outsiders' expectations
    - Major corporate customers' influence
    - Role and influence of general media
    - Role and influence of economic bureaucracy
    - Role and influence of business group / parent / owner norms

- Mimetic forces
    - Role of uncertainty
    - Role of complexity
    - Modelling of successful competitors' practices
    - Modelling of peer group practice
    - Modelling of strategic segment's practice
    - Modelling of international competitors
    - Modelling of global developments
    - Modelling / transplantation of practices from jobs at other institutions
    - Modelling of institutions with close network ties
- Value of and reasons for differentiation
    - Resource partitioning and segmentation
    - Perceived value of innovativeness
    - Unique strategy
    - Unique resource advantages

Again: What (substance), when (timing / order), why (rationale), with which consequences (present outcomes), towards what (future possibilities)?

C) About the Relationship between Organisational Practice and Enacted Environment:

C.1 Perceived Influence of the Context

a) Relative importance of the impact of the factors contained in section B
b) Independent impact of factors contained in section B
c) Combined / interactive effects of factors contained in section B

- Tensions between
    - Resources / power dynamics and stakeholder influence
    - Resources / power dynamics and competitive dynamics
    - Resources / power dynamics and isomorphic pressures
    - Stakeholder influence and competitive dynamics
    - Stakeholder influence and isomorphic pressures
    - Competitive dynamics and isomorphic pressures
- Tradeoffs between
    - Resources / power dynamics and stakeholder influence
    - Resources / power dynamics and competitive dynamics
    - Resources / power dynamics and isomorphic pressures
    - Stakeholder influence and competitive dynamics
    - Stakeholder influence and isomorphic pressures
    - Competitive dynamics and isomorphic pressures
- Reinforcing / augmenting mutual effects between
    - Resources / power dynamics and stakeholder influence
    - Resources / power dynamics and competitive dynamics
    - Resources / power dynamics and isomorphic pressures
    - Stakeholder influence and competitive dynamics

- Stakeholder influence and isomorphic pressures
- Competitive dynamics and isomorphic pressures

In what way?
When?
Why?
With which consequences?

C.2 Bank's Own Influence on the Context

a) Through its own intentional behaviour and activities
b) Through joint efforts with other banks
c) By its own behaviour (in a natural manner)
d) Through its major stakeholders

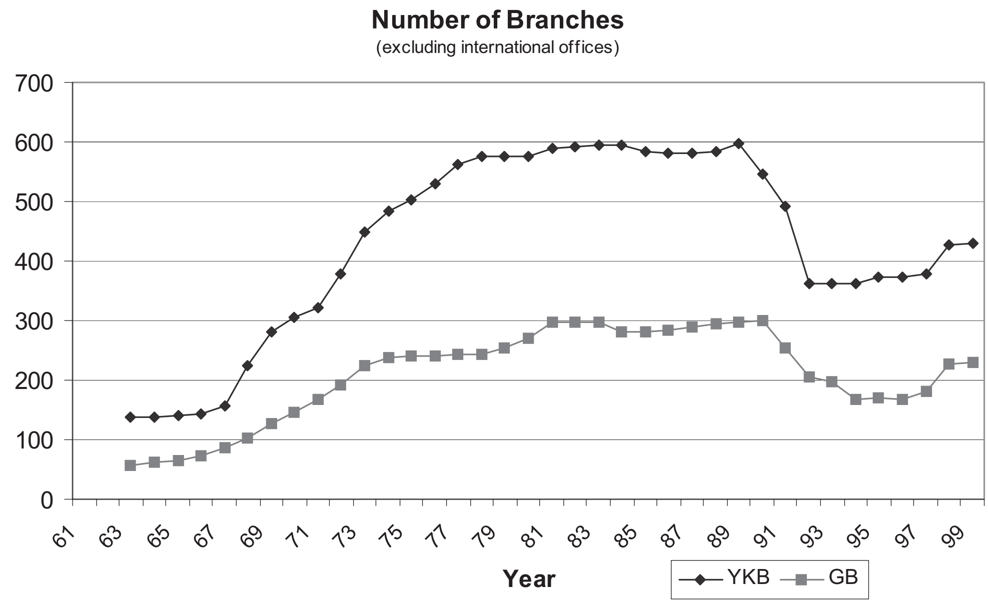
- On regulative authorities
- On owners / major stakeholders
- On competitors
- On major customers
- On employees
- On affiliated institutions
- On network relations

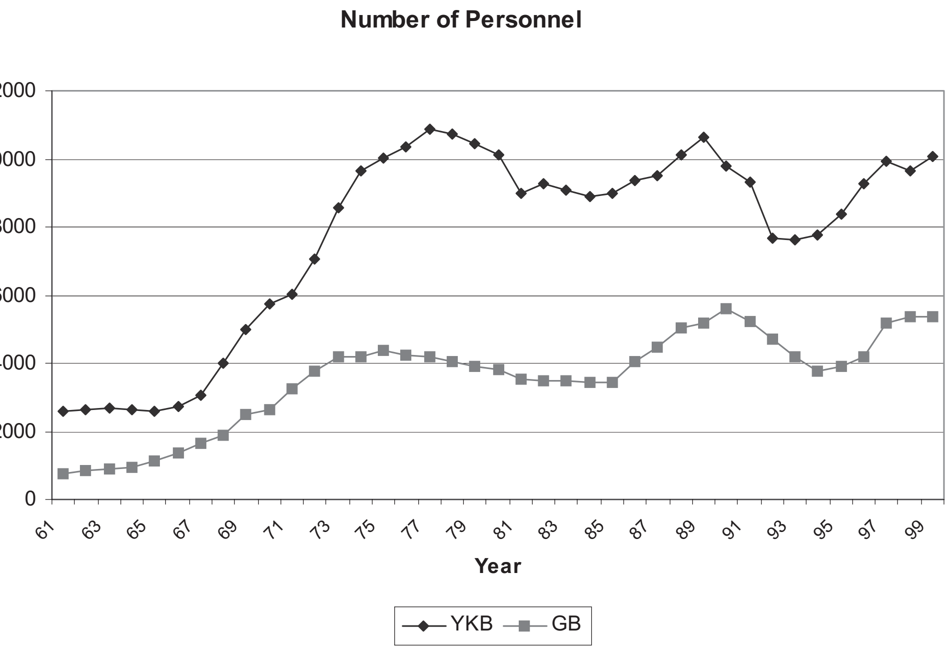
- Through interpersonal relations and co-optation
- Through culture management and indoctrination
- Through co-operative, co-destiny relationships
- Through resolutions of Banks' Association

In what way?
When?
Why?
With what consequences?

APPENDIX 10

BRANCH AND PERSONNEL TRENDS: YKB - GB





APPENDIX 11

TIME LINE OF IMPORTANT EVENTS AT YKB

Before 1980

1944	Foundation of Halk Insurance (later Yapi Kredi Insurance)
1946	YKB first bank to grant loans to tradesmen, villagers, and artisans
”	Interest paid on state bonds which were deposited at YKB creates a first-time increase in the value of these bonds
1952	YKB introduced the concept of educational loans
1964	YKB first in signing a collective work agreement with labour union
1967	YKB first bank to use computers
1975	YKB first bank authorised to take foreign exchange positions
1978	YKB publishes an international bulletin called “Economic Conditions”
”	YKB establishes the first “electronic banking centre” in Turkey

1980 – 1990

1982	YKB forming a separate technology management subsidiary (Bilpa Information Systems Inc. (later Yapi Kredi Technology Services Inc.)
1984	YKB the first in the sector to use on-line branch communication
1986	On-line connection with foreign offices and branches and electronic data processing
”	Agreement with Merrill Lynch to facilitate acceptance of YKB bonds and certificates in international capital markets
1987	YKB first in the sector to automate the trading of capital market instruments by electronically connecting 80 branches with the securities centre
”	Initial Public Offering (IPO) of YKB shares at the Istanbul Stock Exchange
1987-88	YKB first in the sector to introduce personal banking products (credit cards, personal loans, automobile loans, home mortgage loans) YKB first bank to provide insurance coverage for credit card purchases
”	YKB first in the sector to introduce electronic banking (ATMs)
”	YKB founds a leasing subsidiary (Yapi Kredi Leasing)
1989	YKB first in the sector to introduce POS (point of sale terminals)
”	Introduction of company credit cards
1989	YKB first in the sector to introduce mutual funds

1990 – 1995

1990	YKB first in the sector to secure a large medium-term credit from an international consortium without the guarantee of the state or an international organisation
1991	YKB first in the sector to introduce telephone banking
”	YKB first in the sector to introduce a loyalty system for credit cards
”	Founding of Halk Life Insurance (later Yapi Kredi Life Insurance)
1992	Founding of Halk Reassurance
”	YKB first in the sector to introduce accounts with overdraft facility
”	YKB cards connected to PLUS system, enabling the cardholders to access their account all over the world
”	YKB first in the sector to trade stocks and bonds internationally and to issue asset backed securities
1993	Heller Factoring (later Yapi Kredi Factoring)
”	YKB first in the sector to get an international rating review

”	YKB introduces specific products for college students
”	YKB introduces Supercard
1994	Founding of Yapi Toko Bank (joint venture with the Russian Toko Bank) (wholesale commercial bank in Moscow) (later Yapi Kredi Moscow, fully-owned subsidiary of Yapi Kredi Turkey since 1999)
”	Turkcell, a YKB affiliate, introduces GSM (mobile phone services) to Turkey

1995 – 2000

1995	Introduction of insurance coverage for credit cards
1996	YKB subsidiary Superonline pioneers the sector as the largest internet provider
”	YKB subsidiary Turkcell pioneers the sector as the largest GSM service provider (mobile phone operator)
“	Founding of Yapi Kredi Koray Real Estate Company
”	Founding of Banque de Commerce et de Placement (BCP) opened in Geneva (for international trade and private banking / portfolio management)
1997	Secondary public offering (SPO) at London Stock Exchange
”	Introduction of “Telerom”, online banking platform for firms
1998	Introduction of “Turkcell Card” (used as both a phone and bank card?)
”	Introduction of “Teleposmobil”, Turkey’s first mobile POS terminal
”	All banking services available through “Teletel”, phone banking
”	Introduction of “Taksitcard”, credit card for instalment purchases
”	Founding of Yapi Kredi Deutschland A.G. (Dusseldorf branch transformed into a wholly-owned subsidiary)
”	Founding of Yapi Kredi International Financial services in Ireland
”	Founding of Yapi Kredi Securities (investment banking and brokerage subsidiary
1999	Yapi Kredi Moscow (former JV Yapi Toko transformed to wholly-owned subsidiary for corporate banking)
”	Founding of Yapi Kredi Holding B.V. in the Netherlands
2000	Introduction of “Teleweb” (internet banking) and the first in the sector to introduce GSM and WAP banking (“Telewap”)
”	Introduction of residential mortgage loans up to 3 years and foreign exchange housing loans up to 10 years
”	Yapi Kredi Deutschland A.G opened branch in Amsterdam (for corporate banking, foreign trade services, and treasury transactions)
2001	Founding of Yapi Kredi Nederland N.V. (Amsterdam branch transformed into a wholly-owned subsidiary)
”	Introduction of “Televizyon”, digital TV based system enabling access to account and card information
”	ISO 9001 Quality Certification

APPENDIX 12

A) STRUCTURAL DIFFERENTIATION (2001)

<table>
<tr><th colspan="2">LINE AND REGIONAL DIFFERENTIATION IN TOP MANAGEMENT (SALES AND CREDITS)[5]</th></tr>
<tr><th>YKB – 2001</th><th>GB – 2001</th></tr>
<tr><td>SALES
Consumer Banking (VP)
Retail Banking - Region I (VP)
Retail Banking - Region II (VP)
Retail Banking - Region III (VP)
Corporate Banking (VP)

CREDITS (Analysis and Control)
Retail Credits (VP)
Corporate Credits (VP)</td><td>SALES
Consumer Banking (VP)
- Consumer /Personal Banking
- “Open” Banking
- Small Business Banking
Commercial Banking (VP)
- Group /Region – I
- Group /Region – II
Corporate Banking (VP)

CREDITS (Analysis and Control)
Credits (VP)
- Corporate and Commercial Credits
- Consumer Credits</td></tr>
<tr><th colspan="2">REGIONAL DIFFERENTIATION IN MIDDLE MANAGEMENT (SALES, CREDITS, AND OPERATIONS)[6]</th></tr>
<tr><th>YKB – 2001</th><th>GB –2001</th></tr>
<tr><td>SALES
Field/Area Co-ordinators (~ 30)

CREDITS
(None)

OPERATIONS
Regional Managers (10)</td><td>SALES
Regional Managers (7 - 10)
(Commercial and Small Business Banking)

CREDITS
Regional Managers[7] (7 - 10)
(Commercial and Small Business Banking)

OPERATIONS
(None)</td></tr>
<tr><th colspan="2">BRANCH ORGANISATION</th></tr>
<tr><th>YKB – 2001</th><th>GB - 2001</th></tr>
<tr><td>Business Line (Segment) Manager[8]
- Portfolio Teams / Customer Representatives
Operations Manager
Branch Manager</td><td>Portfolio Teams

Operations Manager
Branch Manager</td></tr>
</table>

[5] For complete top management structure, see sections C (3) and and C (5) in this appendix.
[6] No regional organisation in corporate banking.
[7] With authority to approve credits up to an amount of $ 750 thousand.
[8] None in corporate banking.

B) STRUCTURAL DIFFERENTIATION (OLD)

LINE DIFFERENTIATION IN TOP MANAGEMENT		
YKB - 1988	YKB -1994	GB – 1988
Retail Commercial Banking Wholesale Commercial Ban. Consumer Banking Investment Banking	Retail Commercial Banking (I-IV) Corporate Banking Consumer Banking Investment Banking	Retail Banking Corporate Banking
MIDDLE MANAGEMENT[9]		
YKB - 1988	YKB –1994[10]	GB – 1988
Regional Managers (15) - Branch Managers - Functional Managers	Regional Managers (8) - Branch Managers - Functional Managers	Regional Managers (5) - Branch Managers - Functional Managers Sector Managers (8)

[9] Including branch management.

[10] Additional sub-regional level for operations management (for a group of 3-5 banks) not shown.

C) TOP LEVEL ORGANISATION STRUCTURE (COMPLETE DETAILS)

(1) YKB– 1988 [11]

Units / Divisions & Vice Presidents	Departments & Managers
Funds Management	Treasury FX Position TL Position
Retail Commercial Banking	Retail Commercial Credits
Wholesale Commercial Banking	Wholesale Commercial Credits
Investment Banking	Securities Underwriting Services
Consumer Banking, Organisation, and Automation	Consumer Banking Credits Consumer Banking Marketing Consumer Banking Operations Organisation and Automation
International	International Relations International Operations International Accounting
Participations	Participations Construction and Real Estate
Personnel, Education, and Social	Personnel Education / Training Social and Administrative Services
Finance and Administration	Accounting and Financial Planning Financial Analysis Financial and Risk Control Banking Administrative Services Legal Affairs
Internal Audit	---
---	Marketing Advertising and Public Relations Materials and Archives Archives and Communications
---	Regional Management (I to XV)

[11] The list of divisions and departments / units and the corresponding levels of authority were available from YKB annual report 1988. The matching of units / divisions and vice presidents with the corresponding departments and managers underneath was done by the researcher. Four functional departments / managers and the fifteen geographic units could not be matched with any of the above-lying divisions / vice presidents.

(2) YKB– 1994[12]

Units / Divisions & EVPs	Units / Divisions & VPs	Departments & Managers
Funds Management &	Treasury	Treasury
International Transactions and	International Transactions	TL Operations
Relations		Int. Relations-I
		Int. Relations-II
		Int. Accounting
Retail Banking	Retail Commercial Banking-I	Regional Manager-1
		“
	Retail Commercial Banking-II	“
		“
	Retail Commercial Banking-III	“
		“
	Retail Commercial Banking-IV	“
		Regional Manager-8
	Consumer Banking - Credits and Marketing	Personal Loans
		Retail Marketing
	Credit Cards	
Corporate Banking and Credit Risk Management	Corporate Marketing	Corporate Marketing
	Credit Risk Management	Corporate Loans
Capital Markets & Invest. Banking	Capital Markets	Cap. Mark. Marketing
	Capital Markets Opr. and Mktg.	Invest.B.&Int.Marketin
		Underwriting Services
		Participations
Human Resources, Education, and Research	Human Resources	Human Resources
		Personnel Affairs
		Health Affairs
		Admin.& Social Affairs
	Quality and Communications	Specialist Training
		Banking Training
		Economic Research
Finance and Banking Operations	Finance	Financial Analysis
		Risk Management
	Banking Operations	Electronic Banking
		Branch Organisation
		Materials and Archives
	Technology and Project Management	Technology
		Investments
		Construct. & Real Est.
	Legal Affairs	Banking Regulation
		Loan Regulations
	Public Relations, Art and Culture	Advrt.Pub.Rel.Art.Cul.
General Secretary (Exec.Com. Member)		
Internal Audit		

[12] The list of divisions and departments / units and the corresponding levels of authority were available from YKB annual report 1994. The matching of units / divisions and (executive) vice presidents with the corresponding departments and managers underneath was done by the researcher.

(3) YKB– 2001[13]

Units / Divisions & EVPs	Departments & Managers
Treasury and Financial Institutions	Treasury Financial Institutions International Offices Treasury and Banking Projects
Consumer Banking	Consumer Sales Consumer Marketing Customer Relations Credit Cards Marketing Credit Cards Customer Service &
Operations	Credit Cards Financial Planning & Risk
Retail Group – I (Marketing and Sales)	Area / Field Co-ordinators (about 10)
Retail Group – II (Marketing and Sales)	Area / Field Co-ordinators (about 10)
Retail Group – III (Marketing and Sales)	Area / Field Co-ordinators (about 10)
Retail Loans	Retail Loans
Corporate Marketing and Sales	Corporate Sales Corporate Marketing Corporate Branches
Corporate Loans and Underwriting	Corporate Loans Underwriting & Valuations Group Loans Project Finance
Financial Analysis and Risk Management	Credits and Risk Regulations Financial Analysis Market Research
Alternative Distribution Channels	Channel Development ATM Telephone Banking POS Telecard and Payment Systems Call Centre
Operations	International, Treasury, & Credit Ops. Central Operations & Productivity Branch Operations & Cash Management Administrative Operations Regional Operations (I to X)

[13] According to the organigram that was provided by the bank.

Human Resources	Human Resources Training Quality and Communications Health Affairs Industrial Relations
Finance	Financial Accounting Management Reporting & Investor Relations General Accounting Participations Constructions and Real Estate Purchasing and Archives
Legal Affairs	Banking Regulations Credit Regulations Credit Card Regulations Banking & Credit Regulations Operations
Internal Audit	
Institutional and Economic Research	
Advertising and Public Relations	
General Secretary	

(4) GB– 1988 [14]

Units / Divisions & Vice Presidents	Departments & Managers
Treasury & Capital Markets	Treasury (TL) Treasury (FX) Capital Markets Trading
Retail Banking	Deposits Credit Cards
Loans	Loans Financial Analysis and Information
EDP and Automation	EDP Organisational Systems Communications Bank premises and Construction Purchasing
Corporate and International Banking	Correspondent Banking – I Correspondent Banking – II London Representative Office Düsseldorf Representative Office Moscow Representative Office International Operations Project Finance
Human Resources and Training	Human Resources Training Social Affairs Workers' Remittances
Accounting and Planning	Accounting Planning and Budgeting
Senior Legal Consultant	Legal Consultant
Chief Inspector	
---	Marketing (Sector Managers I to VIII) Advertising and Public Relations
---	Regional Management (I to V)
---	Insurance

[14] The list of divisions and departments / units and the corresponding levels of authority were available from GB annual report 1988. The matching of units / divisions and vice presidents with the corresponding departments and managers underneath was done by the researcher. Four functional departments / managers, eight sector managers, and five geographic units could not be matched with any of the above-lying divisions / vice presidents.

(5) GB– 2001[15]

Units / Divisions & EVPs	Departments & Managers
Treasury and Investment Banking	Treasury
	Project Finance
	Investment Banking Co-ordination
	Financial Services
Commercial Banking	Commercial Marketing & Sales - I
	Commercial Marketing & Sales - II
Consumer Banking	Consumer Marketing & Sales
	“Open” (Acik) Marketing & Sales
	Small Business Marketing & Sales
	Advertising and Public Relations
Corporate Banking	Corporate Marketing & Sales
Financial Institutions	Financial Institutions
	Cash Management
Operational Services	Operations Centre
	Treasury Operations
	Branch Support & Process Development
	Customer Relations Management & Marketing
Human Resources & Channel Management	Human Resources & Organisation
	Call Centre
	Alternative Distribution Channels
	Customer Satisfaction
Credits	Corporate and Commercial Credits
	Consumer Credits
	Credit Policies
Management Services	General Accounting
	Fin. Consolidation and International Accounting
Legal Services	Legal Consulting
	Legal Affairs
Support Services	Loan Monitoring
	Construction & Real Estate
Strategic Planning	Management Reporting and Budgeting
	Corporate Strategy, Business Develop. & Investments
General Secretary	
Financial Co-ordination	
Internal Control and Risk Management	Internal Control
	Risk Management
	Participation Risk Management
Internal Audit	

[15] According to the organigram that was provided by the bank.

APPENDIX 13

A) SEGMENTATION AND DIFFERENTIATION INDICATORS

CUSTOMER SEGMENTS / BUSINESS LINES	
YKB – 2001	GB - 2001
- Consumer Banking (1) - Retail Banking (2) - Corporate Banking (3)	- Consumer Banking - Consumer/Personal Banking (1) - “Open” Banking (2) - Small Business Banking (3) - Commercial Banking (4) - Corporate Banking (5)
(1) All individuals. (2) Firms with annual sales below \$ 15 million. (3) Firms with annual sales above \$ 15 million.	(1) Individuals with monthly income above \$ 1,5 thousand. (2) Individuals with monthly income below \$ 1,5 thousand. (3) Firms with annual sales below \$ 2 million. (4) Firms with annual sales between \$ 2-50 million. (5) Firms with annual sales above \$ 50 million.

Note: YKB’s retail banking customers correspond to GB’s small business customers plus a sub-group of its commercial banking customers. YKB’s corporate banking clients correspond to a sub-group of GB’s commercial banking customers plus corporate banking customers. (See table footnotes for customer segment definitions.)

BRANCH DIFFERENTIATION AND BREAKDOWN BY TYPE			
YKB – 2001		GB – 2001	
Retail (Full Service) Branches	415	Full Service Branches	41
Corporate Branches	9	Consumer Banking Branches (including small business customers)	122
		“Open” Branches	44
		Commercial Branches	39
		Corporate Branches	6
		Other (Investment Centre Branches, etc.)	12
TOTAL	424	TOTAL	264
ACTIVE CUSTOMERS BY TYPE			
YKB – 2001		GB – 2001	
Consumer	~ 7 million	Consumer	~ 812 thousand
Retail	~ 240 thousand	Small Business	~ 95 thousand
Corporate	~ 2,4 thousand	Commercial	~ 17 thousand
		Corporate	~ 1,8 thousand
Internet	~ 122 thousand	Internet	~ 300 thousand
BREAKDOWN OF LOANS BY CUSTOMER SEGMENTS / BUSINESS LINES			
YKB – 2001		GB – 2001	
Consumer Banking	19 %	Consumer Banking	15 %
Retail Banking `	50 %	Small Business	11 %
Corporate Banking	31 %	Commercial Banking	37 %
		Corporate Banking	37 %

B) ASSOCIATION OF BANK-SPECIFIC CUSTOMER SEGMENT / BUSINESS LINE TERMINOLOGIES WITH GENERAL BANKING TEMPLATE CONCEPTS AND TERMINOLOGY

We should note that some of the concepts used to denote different market segments and business lines of the two case study banks co-inside with some of the concepts that were used (in a different meaning) to denote different banking templates in quantitative analyses at industry and firm level.

We had used the following banking template definitions in our quantitative analyses (See Appendix 2).

GENERAL BANKING TEMPLATE TERMINOLOGY AND DEFINITIONS	
Commercial Banking	Banking involving operations and transactions in mainly money markets
Investment Banking	Banking involving operations and transactions in mainly capital markets
Retail Banking	Banking predominantly based on smaller transactions with a large number of customers
Wholesale Banking	Banking predominantly based on large transactions with a smaller number of customers

We should stress that "commercial" versus "investment" banking and "retail" versus "wholesale" banking distinctions normally represent two independent dimensions for describing a banking template. In other words, a bank operating in a "retail banking" format can have both "commercial" as well as "investment" banking activities as can a bank operating in a "wholesale banking" format.

Two of the above defined terms, "commercial banking" and "retail banking", were also used in another meaning when describing market segmentation and business line structures of the two case banks as a result of adopting the exact terminology these two banks themselves had used when differentiating their activities. In the context of market segments and business lines, these two terms were used to denote the following activities.

BANK-SPECIFIC MARKET SEGMENT / BUSINESS LINE TERMINOLOGIES AND DEFINITIONS	
Commercial Banking	Banking with medium size firms. (This term was used by GB to differentiate this market segment and business line from "corporate banking", i.e. banking with large corporations, and from "small business banking", i.e. banking with small businesses.)
Retail Banking	Banking including all types of customers except "corporate banking" customers. (This term was used by YKB to differentiate this segment from "corporate banking", i.e. banking with large corporations. In that sense, the term encompasses both "commercial banking" and "small business banking" concepts used by GB plus all other "consumer banking" groups.

Note: See Section A in this appendix, for the complete terminology and definitions of customer segments and business lines.

We should point out that the term "commercial banking" used in the latter way has an entirely different connotation than in its normal usage, i.e. as a general banking terminology to distinguish banking practices in money markets from banking practices in capital markets and therefore "commercial" banking from "investment" banking. The term "retail banking" used in the latter way, on the other hand, does not have an entirely different meaning than in its more general usage. We are mentioning it here, because it was used to specify a customer group as opposed to a banking template.

Let us also clarify then what the latter terms correspond to in terms of the more general banking terminology and concepts as applied in this study, including the case studies.

What both banks call "corporate banking" (although there is some difference in their specific definitions) is what is considered as "wholesale banking" in more general terminology and therefore in our study. Respectively, what both banks call "consumer banking" simply falls under the more general "retail banking" concept. What YKB calls "retail banking" is actually "retail banking" in the exact sense of the word. What GB calls "small business" line/banking also falls under the "retail banking" concept in general terminology, however what it refers to as "commercial banking" line can be interpreted as entailing both "retail banking" as well as "wholesale banking" features. From GB's own perspective, it is closer to "retail banking", because the bank has a separate business line under the name "corporate banking" for firms larger than those assigned to "commercial banking". Considering however YKB's definition of "corporate" and therefore "wholesale" banking, a sub-group of firms belonging to GB's "commercial banking" line could as well be considered as representing "wholesale banking" business. Alternatively, it is also possible to consider a sub-group of firms belonging to YKB's "corporate banking" category as actually representing "retail banking" business.

Using these two alternative interpretations, the tables below display the specific terms denoting different customer segments and business lines of each case study bank and the corresponding banking template concepts.

ASSOCIATIONS BETWEEN BANKING TEMPLATES AND CUSTOMER SEGMENTS / BUSINESS LINES		
ALTERNATIVE – I		
General Banking Template Concept	Bank-specific Terminology for Customer Segments / Business Lines	
	YKB	GB
Retail Banking	Consumer Banking Retail Banking	Consumer Banking Small Business Banking Commercial Banking (partially)
Wholesale Banking	Corporate Banking	Commercial Banking (partially) Corporate Banking
ALTERNATIVE – II		
General Banking Template Concept	Bank-specific Terminology for Customer Segments / Business Lines	
	YKB	GB
Retail Banking	Consumer Banking Retail Banking Corporate Banking (partially)	Consumer Banking Small Business Banking Commercial Banking
Wholesale Banking	Corporate Banking (partially)	Corporate Banking

Summary

After a brief general introduction in Chapter 1, we provided in Chapter 2 the general theoretical background of this study. We discussed the foci of four major theoretical perspectives in organisation theory: National Business Systems / Societal Effects, New Institutionalism, Population Ecology, and Resource Dependence. We outlined how each can be relevant for addressing questions regarding *(organisational) elasticity-inertia* and *(inter-organisational) isomorphism-variation.* Linking these to different conceptions of *organisation-environment relation* and *organisational effectiveness,* we discussed their different as well as complementary aspects. Drawing on the structuration perspective, we emphasised that many relevant controversies can be addressed from a multi-paradigm perspective, without a predisposition to selection or adaptation based views. We furthermore posited that over time, organisational variety in any industry or (inter-) organisational field may vary due to disbanding and founding of organisations as well as transformations that existing organisations may undergo. Building on that, we pointed out the need for more comprehensive analysis of factors and processes leading to prevalence of organisational inertia as well as change and isomorphism as well as variation, and their possible inter-relation.

In Chapter 3, we first presented a comprehensive, multi-level analytical model comprising firm-, population-, industry-, and societal-level factors, which reflected our meta-perspective. As the main level of analysis differed significantly between the relevant theories, this was an essential first step in linking cross-level effects. The model served to link up the main theoretical conceptions pertaining to the four theories discussed in the previous chapter. Furthermore, it demonstrated the importance of multilevel analysis for studying organisation-environment relationship and organisational effectiveness, and for that matter, for studying the determinants and consequences of (organisational) inertia-change and (inter-organisational) isomorphism-variation. Together, these served as an overall analytical backdrop for the main issues addressed and the specific relationships investigated in this study. We then identified and discussed six main issues or research topics emerging from that general analytical backdrop. These were: (1) Parts-whole relations and actor-system dialectics. (2) Organisational inertia/stability and elasticity/change. (3) External and internal structuration. (4) Relationship between resource dependencies and stakeholder demands and institutional legitimacy. (5) Relationship between field dynamics and organisation level outcomes. (6) Role of power differentials and industry stratification in an institutional framework. Finally, we introduced our specific research model(s) and questions, which we used to empirically address these issues and explained our research strategy. These implied a two-stage research set-up consisting of macro (industry) level and micro (firm) level studies, which altogether can be considered as a holistic embedded case study.

In Chapter 4, we first gave an historic overview of the distinct features of the Turkish business and financial system and the major institutional and structural continuities and changes that took place in that system. Specifically, we described the economic liberalisation and deregulation process that took shape during the 1980s and 1990s and its implications for the institutional-economic context of banking. The regulatory institutions and rules of conduct, international involvement and integration, different actors and actor constellations and the changes therein, and organisational inter-dependencies and power structures were all discussed. This served to clarify the role of (time-specific) institutional-economic environment, (changes in) actor constellations, and organisational

inter-dependencies and power, which were three of the main constructs included in our empirical model(s), which was introduced in Chapter 3.

In Chapter 5, we first introduced the operationalisation of all constructs pertaining to our industry-level study and explained their role in that first stage of research. These included the operationalisation of "institutional - economic environment", "organisational inter - dependencies and power", "change in actor constellations", "inertia-change" in business templates", and "isomorphism-variation" in business templates. Next, we provided information on data used in that stage of research and its processing. This was followed by additional information on population characteristics. We concluded this chapter with a description of methods that we applied in industry level analysis.

In Chapter 6, we presented and discussed the outcomes of our macro-level study. We started with an analysis of associations among the variables employed and provided some preliminary information on relationships between firm and institutional-economic environment categories and the variables indicating business strategy and templates. We continued with a detailed descriptive analysis of business template indicators, the changes and continuities as well as homogeneity and variation in these, and the relationship of these with "institutional-economic environment", "organisational interdependencies and power", and "change in actor constellations". Finally, we concluded this chapter with a preliminary interpretation and discussion of these macro results.

In Chapter 7, we first described and explained the second stage micro study model and research design, including the selection and description of firms, which were used for an in depth comparative case study. We then provided information on data collection and analysis, including details on additional components of the "business template" construct as well as the remaining major construct inclued in our study, which was "enactment and adaptation processes".

Two firms (banks) for further case study were selected to represent different institutional power groups and different amounts of change. The major goal was exploring the precise rationale, motivation, process, and outcomes of paths of development of different types of firms. To that end, we had to establish more accurately, and comprehensively, how and why isomorphic tendencies and partitioning can emerge, and how structural inertia can combine with various types of business practice change. To uncover "inner and outer structuration processes" and the interrelation of these with "organisational inter-dependencies and power", we had to account for factors unaccounted for in the macro-analysis, by exploring "enactment and adaptation processes" in greater detail. We thus attempted to employ a process analysis of inertia-change and isomorphism-variation, describing and explaining under which conditions these may emerge and how they may interrelate. One of our major goals was exploring and establishing the links between past choices and actions and future ones, so that we could generate a firm understanding of path-dependence of actions and historic embeddedness of actors.

In Chapter 8, major similarities and differences between the two organisations (banks) in a pre-liberalisation institutional-economic context were analysed and discussed and some explanations were provided. In Chapter 9, we analysed the paths of adjustment of these firms during initial years of institutional change (initial period of economic liberalisation) and provided a discussion of similarities and differences in processes and outcomes of adjustment. Our explanations included the specific interactions between internal and external resources and institutions. In Chapter 10, we presented and analysed the longer-term paths of adjustment of the two firms during an extended period of liberalisation. This was again followed by a discussion of similarities and differences in adjustment processes and outcomes and our explanations for these. In each of these three chapters, we were able addressed the questions pertaining to change and inertia as well as isomorphism and differentiation by accounting in detail for inner and outer structuration processes.

In the last chapter, Chapter 11, we first compared, contrasted, and combined the findings of the micro study, which were presented in Chapter 8 to 10, with the results of the macro study presented in Chapter 6. We then provided our final conclusions, attending to each of the six major topics which this study aimed to address in the first place. In addition, we formulated some propositions for further studies, which we consider relevant for a midrange theory of "organisational isomorphism and differentiation". Finally, we ended our report with a final evaluation of our research approach, including the limitations and contributions of our methodology as well as its implications for theory development in organisation science, in general, and for co-evolutionary research, in particular.

Samenvatting in Nederlands (Summary in Dutch)

Dit onderzoek bevat een analyse van vraagstukken omtrent (1) organisatieverandering (en stabiliteit), (2) tussenorganisatorisch isomorfisme (en variatie), en (3) de onderlinge relaties. Het specifieke empirische domein van het onderzoek omvat de strategieën en organisatievormen van Turkse commerciële banken.

Het theoretische kader van het onderzoek bestaat uit vier organisatiekundige perspectieven (National Business Systems / Societal Effects, New Institutionalism, Population Ecology, en Resource Dependence) die op verschillende manieren deze kwesties benaderen. Verder is er gebruik gemaakt van structuratie-theorie en co-evolutionistische benaderingen om de verschillende conceptionele benaderingen van deze vier theorieën onder een dak te brengen.

Het gehele onderzoek was gebaseerd op historische analyse en bestond uit twee fasen. In de eerste fase hebben we een kwantitatieve analyse verricht op het macro (industrie) niveau en belangrijke verschillen vastgesteld tussen verschillende tijdperken en groepen en typen banken wat betreft de mate en het domein van verandering-stabiliteit en isomorfisme-variatie. In de tweede fase zijn we verder ingegaan op co-evolutionaire processen in specifieke bedrijven en hun economisch-institutionele omgeving. Met de hulp van twee gedetailleerde case studies en gebruikmakend van zowel kwantitatieve als kwalitatieve informatie, hebben we de verschillende maten en vormen van organisatieverandering en tussenorganisatorisch isomorfisme (en variatie) in kaart gebracht.

De belangrijkste conclusies van het onderzoek zijn de volgende:

- Zowel isomorfieke als ook variatie creërende processen zijn sterk onder de invloed van de historie van het bedrijf.
- Deze invloed kan zich ook in radicale en centrale organisatieveranderingen voordoen.
- Organisaties kunnen verschillende maten en vormen van verandering combineren in verschillende organisatorische domeins.
- Verschillende maten en vormen van isomorfisme en variëteit kunnen worden geassocieerd met verschillende organisatiedomeinen. Dit betekent dat ook verschillende principes in werking zijn in de verschillende domeinen.
- Over de tijd en organisatieonderdelen of –aspecten heen, is een dialectische relatie tussen zowel verandering en stabiliteit als ook isomorfisme en variëteit mogelijk.
- De specifieke combinaties van verandering en isomorfe uitkomsten hangt af van de interactie van bedrijfs- en industriespecifieke middelen en instituties.